Annual Financial Report

Fiscal Year 2014-2015

MICHIGAN STATE UNIVERSITY

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2014-2015 Annual Financial Report Cover Photograph: Eli and Edythe Broad Art Museum at Michigan State University. Photograph by Derrick L. Turner/Michigan State University.

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MICHIGAN STATE
UNIVERSITY

October 30, 2015

We are pleased to present Michigan State University's financial report and results of operations for fiscal years ended June 30, 2015, and June 30, 2014. The financial report was prepared by Finance staff in accordance with generally accepted accounting principles for public colleges and universities as defined by the Governmental Accounting Standards Board. The Board of Trustees adopted the report as part of MSU's commitment to report annually on its fiscal affairs. Plante & Moran, PLLC, certified public accountants, audited these financial statements. The enclosed information is accurate in all material respects and reported in a manner fairly representing the university's financial position, to the best of our knowledge.

Financial Report Highlights:

- The university's financial assets were $5.4 billion with a net position of $3.4 billion.
- The net position grew by $206 million.
- Revenues increased $183 million, expenses increased $94 million, and net investment income added $93 million.
- State appropriations increased $18 million.
- Federal research grants and contracts contributed $324 million
- Charitable gifts provided $124 million.

MSU has been working to advance the common good in uncommon ways for more than 150 years through more than 200 programs of study in 17 degree-granting colleges. Consistently ranked among the world's top universities, MSU remains among the most efficient of its peer research institutions.

MSU makes an impact across Michigan and the world. The university has a presence in every county in our state through our medical schools, research stations, partner hospitals, and MSU Extension. We take seriously our missions of education, research, and outreach. By maintaining a level of in-state enrollment that is well above the Big Ten average, MSU is providing a world-class education to the best and brightest of Michigan.

As the nation's pioneer land-grant university, MSU embraces its special mission of world-class instruction, research, and public service to solve the world's most pressing problems. Through the combined efforts of its faculty, staff, alumni, and worldwide supporters, MSU continues its role as the world's preeminent land-grant university by making a significant impact on Michigan, the nation, and the world. Spartans Will.

Mark P. Haas

Mark P. Haas
Vice President for Finance and Treasurer

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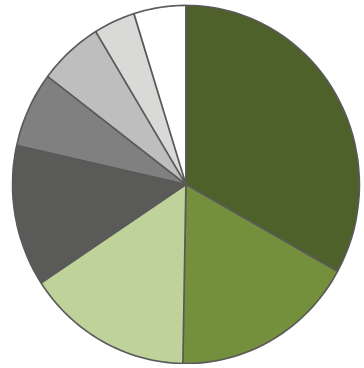
As part of Michigan State University's (MSU) commitment to strong fiscal stewardship, the University annually engages an independent auditing firm to conduct an audit of the University's financial statements. MSU engaged Plante & Moran, PLLC (PM) and MSU has again received an unmodified ("clean") opinion.

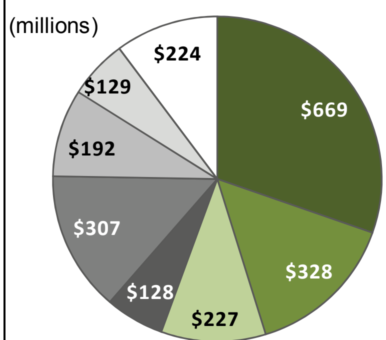
For the fiscal year ending June 30, 2015, MSU maintained its strong financial position with a total of $3.4 billion in net position, an increase of $206 million. MSU is committed to creating value for its students and partners. Through diversification of revenue streams and focusing resources on key mission-specific initiatives, MSU is providing access and opportunity to both undergraduate and graduate students, both on campus and beyond.

Sources of Revenue (millions):

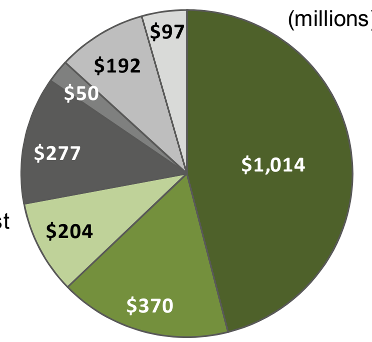
Tuition, net	$ 797
Grants and contracts	415
State/Capital appropriations	372
Auxiliary activities	308
Gifts/Capital grants	164
Medical services	144
Net investment income	93
Other	117
Total revenues	**$2.4B**



Total Expenses by Function = $2.2B | ***Total Expenses by Type = $2.2B***



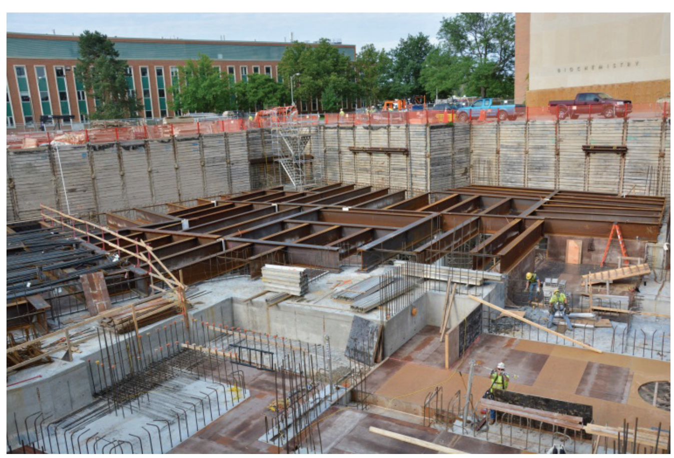
Function	Type
Instruction	Employee wages
Research	Employee benefits
Public service	Contractual services
Institutional support	Supplies
Auxiliary enterprises	Travel
Depreciation and interest	Depreciation and interest
Maintenance of plant	Financial aid
Other	



Bolder by Design continues to provide the framework to propel MSU forward as a top research university by focusing on accelerating the pursuit of big ideas, innovation, and global impact. Built upon its core values of quality, inclusiveness, and connectivity, MSU is committed to delivering distinctive, high-value impact and experiences in everything we do:

Increase Research Opportunities

The continued development of the Facility for Rare Isotope Beams (FRIB) project is advancing the University's continued leadership in the field of nuclear isotope research. This $730 million partnership with the Department of Energy brings a consistent flow of federal and state funds to MSU, $101 million this year and $233 million total to date. As MSU persists toward its goal of doubling grants and awards over the next decade, MSU sponsored program revenue totaled $423 million (including $40 million in capital grants), an increase of $46 million. Noteworthy amounts for various awards include $90 million from the



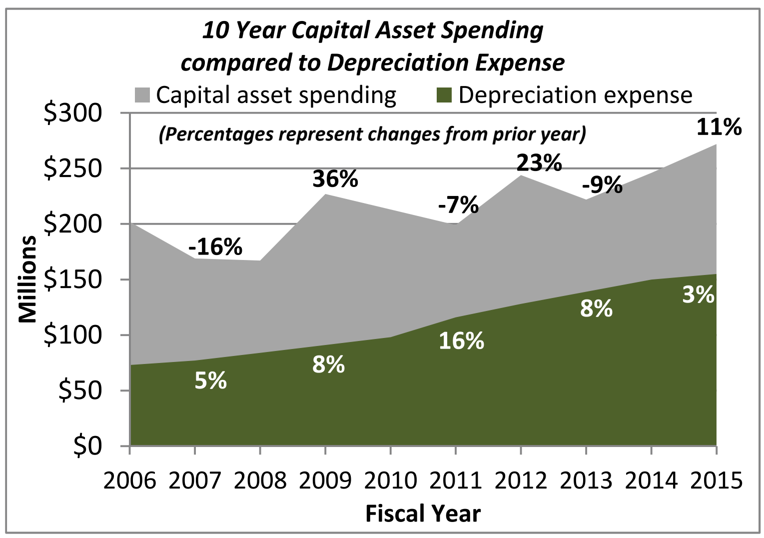
(FRIB construction – significant concrete pour in the spring 2015)

Department of Energy (DOE), $79 million from the National Science Foundation (NSF), $62 million from the National Institutes of Health (NIH), and $36 million from the Department of Agriculture (USDA). Compared to its peers, MSU ranks 6th in DOE expenditures, 8th in USDA expenditures, and 16th in NSF expenditures.

During 2015, President Obama selected MSU to be a core partner in a national consortium designed to advance research and development of composite materials. MSU will lead the light-and-heavy-duty vehicle component of the Institute for Advanced Composites Manufacturing Innovations (IACMI). In addition, MSU has launched the Center for Health Impacts of Agriculture, which will focus on researching and addressing the growing global effects of agriculture on humans and animals. Also in 2015, MSU created the Water Science Network (WSN), a further investment into MSU's Center for Water Sciences created six years ago. WSN is a collaboration focused on the continued advancement of ground-breaking science to address the most important water problems facing the world today.

MSU is working to build and upgrade academic and research infrastructure to advance its culture of high performance in delivering the highest quality services to its partners. Modern facilities and leading-edge technology provide a competitive advantage in an intensifying competition for federal research funding. This year alone, the University received a $12 million state capital appropriation for the new Bio-Engineering Facility. MSU is also leveraging its $193 million Series 2015A long-term debt issuance to support funding the construction of the Bio-Engineering Facility, FRIB and the Grand Rapids Research Center – a facility that will allow the College of Human Medicine to advance National Institutes of Health research growth.

Total capital asset investment during 2015 totaled $272 million and has averaged $216 million annually over the past decade. Capital asset spending includes constructing and renovating research facilities, residential facilities, auxiliary facilities, and utility infrastructure. In addition, capital assets include acquiring or constructing specialized scientific equipment to assist in research initiatives. This spending is funded from various sources including debt, restricted state capital appropriations, grants and gifts, and University reserves. Depreciation expense represents the recognition of capital asset spending over the estimated useful life of an asset, ranging from 4-40 years based on the type of asset.

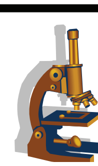


Strengthen Stewardship

In October 2014, MSU publically announced the $1.5 billion "Empower Extraordinary" fundraising campaign. As of September 1, 2015, the University has received *commitments* totaling $1 billion. As donor commitments are *collected*, accounting standards permit MSU to record gifts for inclusion in the audited financial statements. In fiscal year 2015, gifts totaled $124 million, including $37 million in additions to permanent endowments. MSU will continue to recognize gift revenue in future years as outstanding commitments are collected.

75th
World Ranking by U.S News & World Report

$386 M
in 2015 Federal Grant Expenses



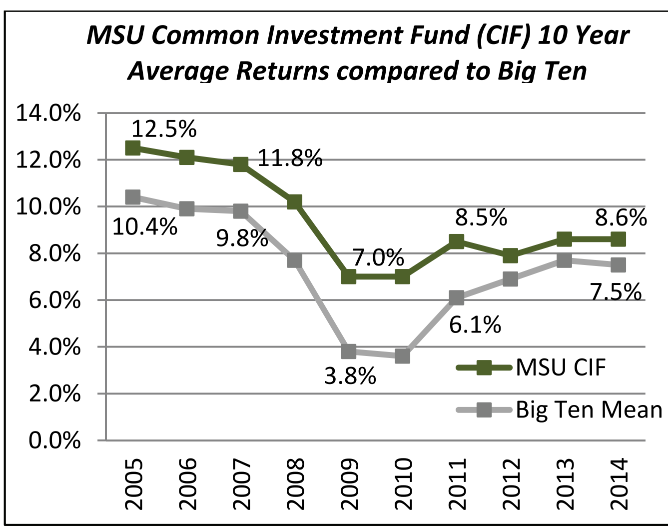
50th
National Ranking for Annual Federal Research & Development Expenses

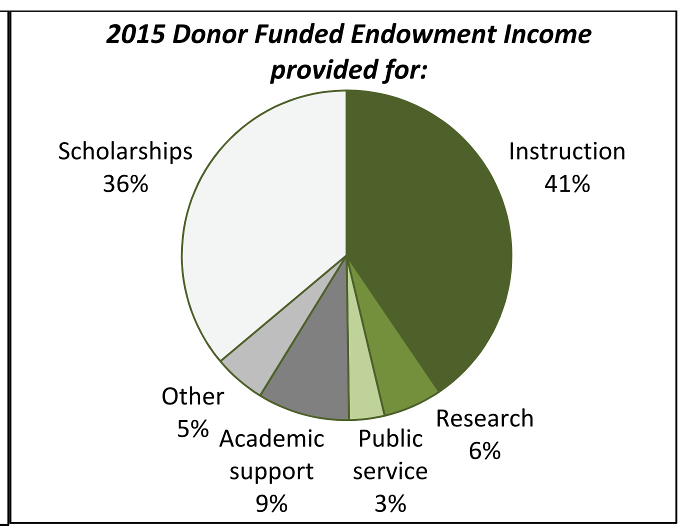
The campaign has four main priorities:

EMPOWER EXTRAORDINARY

- ***An Engine of Opportunity - $400 million goal***: funding will be focused on helping young people realize their potential by providing learning opportunities and by keeping MSU's doors open to the best and brightest regardless of their financial means. MSU has received commitments representing 59% of this goal.
- ***A force for Creativity, Discovery, and Learning - $350 million goal***: funding will be focused on supporting faculty poised to generate a significant number of scientific breakthroughs as well as help students find their life's work. MSU seeks to establish 100 new endowed chairs and fund important academic and intercollegiate programs in order to retain and attract great thinkers, coaches, and mentors. MSU has received commitments representing 64% of this goal.
- ***A Vibrant Community - $450 million goal***: funding will be used to transform our teaching and enrich the way our students learn. With new investments, MSU can build infrastructure for the digital world, enhance the arts, and support leading athletic programs while also providing the resources needed to be nimble and responsive to emerging opportunities. MSU has received commitments representing 59% of this goal.
- ***A Global Problem Solver - $300 million goal***: funding will be used to advance MSU's reputation of providing visionary and groundbreaking research to solve the world's most daunting challenges. MSU has received commitments representing 63% of this goal.

The University's total investments, including endowment investments of $2.2 billion, have grown to $2.8 billion due primarily to gifts and strong investment returns. Over the ten year period 2005-2014, MSU's Common Investment Fund annual returns have averaged 8.6%. This level of performance allows MSU to direct critical resources to mission-driven initiatives. It is important to effectively utilize our donor funds in order to provide value and recognition to both the recipient *and* the donor.





To strengthen stewardship over our campus environment, MSU took action to reduce emissions at its T.B. Simon Power Plant, as well as significantly advance its Energy Transition Plan. The University is taking steps to stop burning coal by the end of 2016, with a majority of coal purchasing and burning ending in 2015. MSU expects to partner with Consumers Energy in transitioning to natural gas as the University's primary fuel source, supplemented with renewable energy sources. This provides a cleaner, more stable power supply and positions MSU to advance on the three goals in its original Energy Transition Plan: improve the environment; make resources available for investment into the research and development of sustainable energy; and demonstrate the University's leadership role in sustainable energy. Further, this stewardship is demonstrated in the classroom. MSU offers 15 environment-focused majors, specializations in environmental studies and sustainability, and a residential learning community that focuses on the study of the environment.

MSU's strong stewardship is also reflected via high performing operational efficiency. MSU is among the lowest in its peer group for energy costs – this year, operation and maintenance of plant expenses decreased $10 million (7%). The University also has managed to maintain a 5% cap on employee health care costs. Efficiencies such as these have enabled MSU to maintain high quality while receiving $3,700 less per student from state appropriations compared to its national peers.

Enhance the Student Experience

MSU represents excellence and value. Despite a declining Michigan population, MSU has maintained a strong application pool with over 35,000 received for fall 2015 enrollment. MSU's complement of in-state, domestic out-of-state, and international students demonstrates a continued commitment to diversity – a major source of the university's vitality and innovative spirit. MSU students demand high value and their future employers demand high-quality graduates. MSU is delivering both. The University is a top-100 university in the world with 29 programs listed among the top 20 in the U.S. News & World Report rankings. MSU's employed or continuing education placement rate is 91%. The University has long taken its duty to provide value to its students as a core part of its mission as a land-grant university. After inflation, the cost of providing a MSU education has remained constant over a more than ten-year period. This allows MSU students to graduate with less debt than the State or national average. Further, MSU is committed to providing access to MSU for those in Michigan and around the world. During 2015, financial aid (tuition allowances and scholarships & fellowships) totaled $175 million, an increase of $7 million (4%) and in line with the University's goal of keeping recurring increases in financial aid consistent with tuition and fees.

During 2015, MSU continued to build upon its residential neighborhood concept, including the completion of an $18 million Landon Hall renovation project. The new neighborhood concept fosters an environment of collaboration and exploring Big Idea initiatives. The neighborhoods allow students to explore new approaches to supporting academic work; preparing for successful employment and careers; and developing as future leaders and "T-shaped" professionals – individuals with deep disciplinary knowledge and skills coupled with the ability to navigate across social, cultural, and economic boundaries. Targeted for completion in fall 2017, the redevelopment project at the legacy State Police post will further enhance the student experience by retaining convenient event parking access while offering single students and student families a vibrant community with revitalized apartment housing, engagement areas, scenic plazas, and a marketplace to fulfill every Spartan's need.

(Artistic rendering – redevelopment project at legacy State Police Post)

(Heritage Commons dining at Landon Hall)

Enrich Community, Economic and Family Life

MSU makes an impact in Michigan and across the world. The University has a presence in every county in the State through its medical schools, research stations, partner hospitals, and MSU Extension. MSU plays a key role in the State's annual $101 billion food and agriculture system through partnerships, research, and educational programs. The University takes seriously its mission of educating the children of Michigan. By maintaining a level of in-state enrollment that is well above the Big Ten average, MSU is providing a world-class education to the best and brightest in its own state and those from around the world.

MSU's talent and expertise help position Michigan as an uncompromising competitor in a global market, and the University makes vital contributions to the State's economy through initiatives that include the University Research Corridor, AgBioRearch, and Extension offices. During 2015, new initiatives that continued to advance MSU's presence in the Michigan and around the world included:

- ***Launch of the Food Processing and Innovation Center***: a USDA/FDA-certified center at MSU where private companies can scale up and commercialize new food products and production processes.
- ***Launch of the Global Center for Food Systems Innovation hub in Malawi***: a USAID-supported Global Center for Food Systems at MSU launched a regional innovation hub in Malawi to support creating food system innovations in that region.
- ***Expansion of Hatch***: 1,135 square feet of new space was added to The Hatch, which is a student co-working area designed to host, accelerate, cultivate, and enable student entrepreneurs to grow their ideas through a creative, co-working environment.
- ***Expansion of College of Human Medicine (CHM) in Flint***: CHM unveiled its new medical education and public health research space in the former Flint Journal Building in downtown Flint.

(Food markets in Malawi)

34,861 *Enrolled Michigan Students*

38 *MSU Partner Hospitals*

163,587 *4-H Youth Participants*

240,948 *Alumni residing in Michigan*

Introduction

The following discussion provides an overview of the financial position of Michigan State University (the "University") for the fiscal years ended June 30, 2015 and 2014.

Included in this discussion is an analysis of the University's Statement of Net Position, which presents the assets, liabilities, and net position of the University, and when applicable, deferred outflows of resources and deferred inflows of resources. All are measured as of the end of the fiscal year. Further, the Statement of Revenues, Expenses, and Changes in Net Position reflects revenues and expenses recognized during the fiscal year. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

The Michigan State University Foundation (the "Foundation") is a legally separate entity which meets the criteria set forth for component units under GASB regulations. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of its receipts from the Foundation, the resources (and income thereon) the Foundation holds and invests are dedicated to benefit the University. Because these resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation is a private organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

The University's financial statements, related footnote disclosures, and discussion and analysis (which excludes the Foundation), have been prepared by management. The discussion and analysis should be read in conjunction with the financial statements and footnotes.

Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when services are provided and expenses and liabilities are recognized when others provide the services, regardless of when cash is exchanged. Deferred outflows and deferred inflows of resources are recognized through the consumption or acquisition of resources by the University that is applicable to a future reporting period. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summarized comparison of the University's assets, deferred outflows of resources, liabilities, and net position at June 30, 2015, 2014, and 2013 follows (the University has no deferred inflows of resources):

	2015	2014	2013
		(in millions)	
Current assets	$ 534	$ 507	$ 513
Noncurrent assets:			
Restricted cash and cash equivalents and restricted investments	207	16	101
Endowment and other investments	2,483	2,317	1,945
Capital assets, net	2,107	1,995	1,901
Other	81	71	67
Total assets	5,412	4,906	4,527
Deferred outflows of resources	62	60	61
Current liabilities	559	491	488
Noncurrent liabilities	1,536	1,302	1,275
Total liabilities	2,095	1,793	1,763
Net position	$ 3,379	$ 3,173	$ 2,825

Current assets:

Current assets consist of cash and cash equivalents, investments, net accounts and interest receivable, and other assets. The net increase in current assets in 2015 is due primarily to a net $27 million increase in accounts receivable balances. This increase is due in part to an increase of $13 million due from the State of Michigan for capital appropriations authorized for the reimbursement of certain eligible construction costs and an increase of $8 million for certain Medicaid Enhanced Reimbursement programs within the College of Human Medicine and College of Osteopathic Medicine. Accounts receivable balances generally vary from year to year due in part to timing of University initiatives and timing of cash collections related to those initiatives.

The net decrease in 2014 was due primarily to a net $4 million decrease in cash and cash equivalents and investments (primarily a function of the University's operating, financing, and investing activities as reported in the Statement of Cash Flows).

Noncurrent assets:

Restricted cash and cash equivalents and restricted investments

All balances represent unspent bond proceeds which are externally restricted for the construction or purchase of capital assets. The increase in 2015 is due to the current year issuance of bonds (Series 2015A in June 2015 – see noncurrent liabilities section). The decrease in 2014 represents the spending of Series 2013A bond proceeds consistent with their restricted purpose.

Endowment and other investments

At June 30, 2015 and 2014, the University's endowment investments totaled $2,242 million (an increase of $160 million) and $2,082 million (an increase of $498 million), respectively. Endowment gifts and University-designated additions to endowment investments totaled $45 million in 2015 and $50 million in 2014. Investment gains (realized and unrealized) within the investment portfolio accounted for a net $18 million increase and a net $178 million increase in 2015 and 2014, respectively, while $12 million and $13 million of unspent spending policy distributions were reinvested into the respective endowments, consistent with the underlying endowment agreements, in 2015 and 2014, respectively. In addition, investments of $120 million in 2015 and $270 million in 2014 were reallocated to designated endowment investments, consistent with the University's Board-approved cash management and investment plan. Partially offsetting these increases is a net draw on accumulated capital gains of $35 million and $13 million in 2015 and 2014 respectively, for programmatic and capital initiatives.

Other investments consist primarily of retirement and postemployment benefit reserves, which totaled $93 million and $96 million at June 30, 2015 and 2014, respectively. Also included in other investments is the Liquidity Reserve Pool component of the University's Operating Cash Pool ($80 million in 2015 and $79 million in 2014).

For the years ended June 30, 2015, 2014, and 2013, the total returns on investments were as follows:

	2015	2014	2013
Operating Cash Pool:			
Liquidity Pool	0.9%	1.2%	1.1%
Liquidity Reserve Pool	1.0%	4.0%	1.4%
Common Investment Fund	3.0%	16.2%	11.3%
Other Separately Invested Investments	(0.1)%	8.6%	13.8%

Capital assets

The University continues to implement its long-range plan to modernize and renew its teaching, research and residential life facilities in support of its mission. At June 30, 2015, 2014, and 2013, the University's investment in capital assets was as follows:

	2015	2014 (in millions)	2013
Land	$ 42	$ 39	$ 38
Buildings and site improvements	2,776	2,681	2,518
Construction in progress	316	214	184
Software and other intangibles	95	95	93
Equipment and other	777	735	706
Museum collections	13	12	11
Less: accumulated depreciation	(1,912)	(1,781)	(1,649)
	$ 2,107	$ 1,995	$ 1,901

Major additions to buildings and site improvements during 2015 include $25 million for the Spartan Stadium – North End Zone addition, $18 million for Landon Hall – Dining, Safety, and Accessibility renovations, $14 million for Steam Distribution Tunnel replacement, $8 million for the Union Building Engagement Center and Multicultural Center, and $8 million for the Animal Clinical Center renovation. Major additions to buildings and site improvements during 2014 include $30 million for Bailey and Rather Hall renovations, $27 million for Armstrong and Bryan Hall renovations, $18 million for Fairchild Theatre Auditorium alterations, $14 million for Butterfield Hall renovations, and $14 million for the Facility for Rare Isotope Beams – New High Bay.

Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as buildings and site improvements. The 2015 balance includes $99 million for the Facility for Rare Isotope Beams, $50 million for the Bio Engineering Facility, $17 million for Akers Hall Dining and Life Safety renovation, and $16 million for Steam Distribution Tunnel replacement. In addition, this balance includes certain specialized equipment fabrication being constructed for the Facility for Rare Isotope Beams that totals $44 million. The 2014 balance includes $67 million for the Facility for Rare Isotope Beams (including $19 million in specialized equipment fabrication), $21 million for the Spartan Stadium – North End Zone addition, $17 million for Landon Hall – Dining, Safety, and Accessibility renovations, $15 million for the Bio Engineering Facility, and $14 million for Steam Distribution Tunnel replacement.

As of June 30, 2015, the University had initiated plans and incurred certain contractual commitments related to the construction and renovation of various facilities. The costs to complete the projects are estimated to be $752 million and are to be funded over multiple years from debt proceeds, capital grants, private gifts, and other University funds.

Deferred outflows of resources:

Deferred outflows of resources consist of accumulated changes in the fair value of hedging derivative instruments and deferred losses on a refunding of debt in fiscal year 2010. The net increase of $2 million and decrease of $1 million of deferred outflows of resources in 2015 and 2014, respectively, is due primarily to the change in the accumulated fair value of the hedging derivative instruments.

Current liabilities:

Current liabilities consist primarily of trade accounts and interest payable, accrued compensation and other personnel costs, unearned revenues, and other liabilities payable within one year or less. The net increase in 2015 is due in part to a $46 million increase in the current portion of long-term debt and other obligations, $12 million increase in unearned revenue, and $8 million increase in deposits held for others. The net increase in the current portion of long-term debt and other obligations is due in part to a net issuance of $108 million of General Revenue Commercial Paper, Series E, which was used to finance or reimburse all or part of the costs of capital projects ($54 million), and refund outstanding General Revenue Commercial Paper, Series D ($47 million) and Series B ($7 million). The net increase in unearned revenue is primarily due to a $10 million increase from sponsored programs, which represents sponsor funding received but not yet expended. Fluctuations in sponsored program unearned revenue amounts are primarily due to timing differences of cash draws from the grantor. Deposits held for others represent funds held at the University in a fiduciary capacity, but which the University does not have the rights to spend. The net increase is due to a net $8 million deposit by an affiliated law college for investment in the University's Common Investment Fund.

The net increase in 2014 was due in part to a $12 million increase in trade accounts and interest payable, $6 million increase in unearned revenue, and $3 million increase in accrued personnel costs. Offsetting these increases was an $18 million decrease in the current portion of long-term debt and other obligations. Trade accounts payable balances vary from year to year due in part to timing of University initiatives and payments of related programmatic costs. The net increase in unearned revenue was primarily due to $3 million in lease revenue received in advance of the lease period and $2 million increase in advance athletic ticket sales. The net decrease in the current portion of long-term debt and other obligations was due in part to the refunding of outstanding General Revenue Commercial Paper (short term financing), Series D, totaling $25 million, partially offset with the issuance of General Revenue Commercial Paper, Series B ($3 million) and Series E ($1 million).

Noncurrent liabilities, primarily debt:

At June 30, 2015, the University had noncurrent debt and other obligations outstanding of $1,091 million compared with $905 million at June 30, 2014. This balance is comprised primarily of outstanding General Revenue Bonds of $1,050 million and $864 million in 2015 and 2014, respectively (including $52 million and $40 million in 2015 and 2014, respectively, of related original issue premiums). The increase is primarily due to debt proceeds received during 2015 totaling $208 million through the issuance of Series 2015A bonds (including $15 million of original issue premium), which was primarily used to finance or reimburse all or part of the costs of eligible capital projects and to refund other outstanding debt. Offsetting this increase is a reduction in noncurrent debt and other obligations due to scheduled principal debt payments of $22 million, primarily in outstanding General Revenue Bonds. The University periodically reviews its debt capacity and related capital asset needs to optimize the use of its long-term resources. The University's outstanding General Revenue debt carries an investment grade credit rating from Moody's and Standard & Poor's of Aa1 and AA+, respectively.

The University faces the continuing challenge of funding its increasing health care and dental benefits costs. This includes the cost of providing postemployment health and dental benefits to eligible employees (other postemployment benefits, or OPEB) through a closed single employer defined benefit plan administered by the University. For the year ended June 30, 2015, the University has estimated the cost (annual expense) of providing OPEB through an actuarial valuation as of January 1, 2014. The actuarial valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover current year costs and amortize any unfunded actuarial liabilities over a period of thirty years. The University's total unfunded OPEB obligation in 2015 and 2014 is estimated at $866 million and $823 million, respectively. Of these amounts, the University has recorded a noncurrent liability of $350 million and $307 million for 2015 and 2014, respectively, representing the net OPEB obligation (the cumulative difference between the annual required contribution less actual retiree health and dental payments made during the respective fiscal years). This increase of $43 million represents the continued amortization (year eight of thirty) of the total unfunded OPEB obligation.

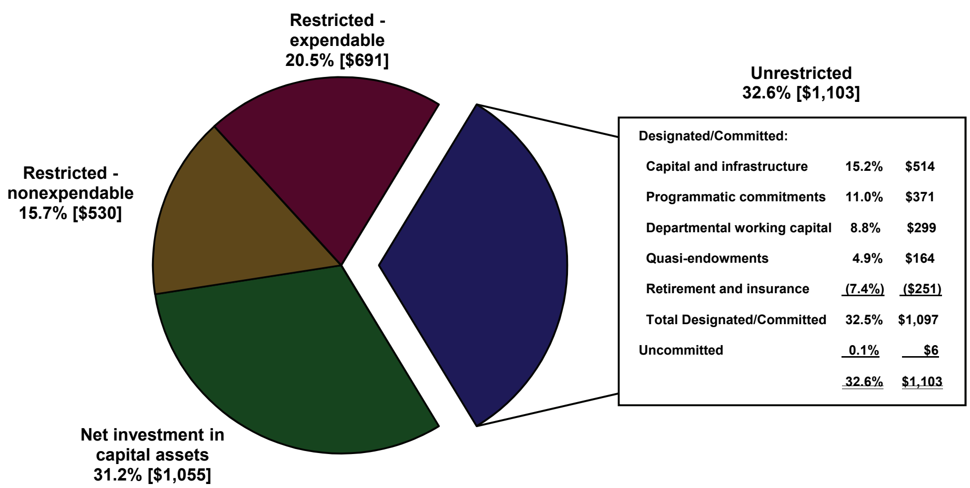
In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which changes the financial reporting requirements for OPEB. Effective for fiscal year 2018 (with the option of early implementation), MSU will no longer be allowed to amortize the unfunded OPEB obligation over a thirty-year period. The University will be required to report the full unfunded actuarial liability in its entirety in the financial statements. In addition, GASB 75 limits the use of certain actuarial assumptions previously allowed under current OPEB accounting guidance. These changes will result in a recomputed total unfunded OPEB obligation, of which the full impact has not yet been determined. Although the financial reporting of the liability will be changing, MSU's approach on funding the retirement benefit on a pay-as-you-go basis will continue.

Net position:

Net position represents residual University assets and deferred outflows after liabilities are deducted. The University's net position at June 30, 2015, 2014, and 2013 is summarized as follows:

	2015	2014	2013
		(in millions)	
Net investment in capital assets	$ 1,055	$ 983	$ 937
Restricted:			
Nonexpendable	530	487	436
Expendable	691	674	567
Total restricted	1,221	1,161	1,003
Unrestricted	1,103	1,029	885
Total net position	$ 3,379	$ 3,173	$ 2,825

The following is a breakdown of net position at June 30, 2015. See footnote 15 for further information (amounts are presented in millions of dollars):



TOTAL NET POSITION $3.4 BILLION

Net investment in capital assets represents the University's land, buildings, software, and equipment net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position is subject to externally imposed stipulations that they be maintained permanently. Such net position includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Such net position includes the net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently, restricted quasi-endowments, restricted gifts, and federal and state sponsored programs.

Although unrestricted net position is not subject to externally imposed restrictions, virtually all of the University's unrestricted net position is subject to internal designation to meet various specific commitments. These commitments include funding the completion of the 2015 summer semester and the first quarter of fiscal year 2016, maintaining reserves for capital projects, continued recognition of the OPEB obligation, working capital for self-supporting departmental activities, and unrestricted quasi and term endowments. The uncommitted balance at June 30, 2015 is $6 million.

The University's ongoing review of its infrastructure indicates a need for approximately $1 billion over the next 10 years to modernize and renovate aging teaching, research, housing and other support facilities, utility systems, and roads, consistent with its just-in-time maintenance strategy, and to upgrade administrative and other campus-wide technology systems. The University intends to address these maintenance and technology needs through the use of capital and infrastructure reserves, appropriate use of additional borrowing, and efforts to obtain gifts, grants, and capital appropriations.

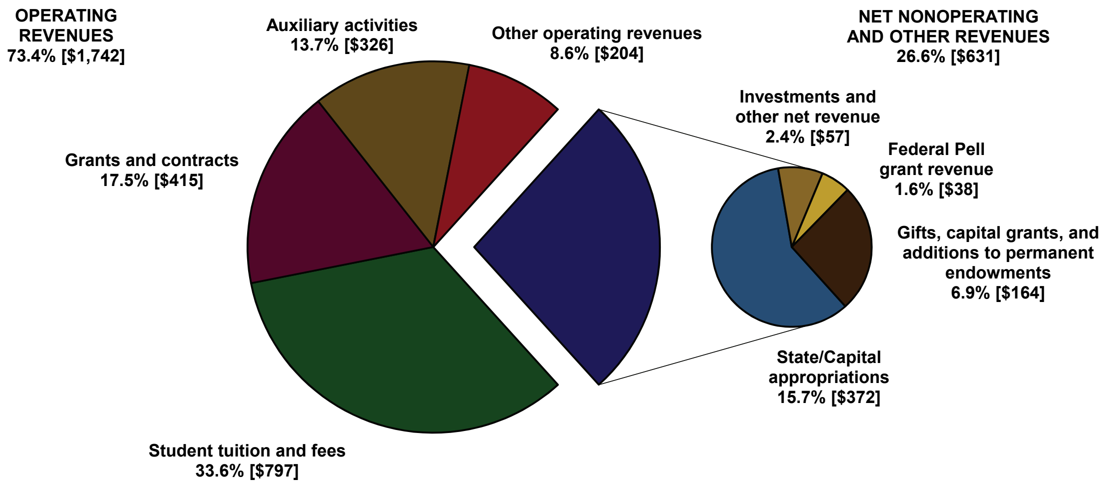
Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the operating results of the University, as well as the nonoperating revenues and expenses. Operating revenues primarily include net student tuition and fees, grants and contracts, and auxiliary activities. Given a public university's dependency on revenues such as state appropriations, gifts, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses will exceed operating revenues, resulting in an operating loss. Net nonoperating revenues or expenses are an integral component in determining the increase or decrease in net position.

A summarized comparison of the University's revenues, expenses, and changes in net position for the years ended June 30, 2015, 2014, and 2013 follows:

	2015	2014	2013
		(in millions)	
Operating revenues:			
Student tuition and fees, net of allowances	$ 797	$ 753	$ 697
Grants and contracts	415	389	396
Auxiliary activities	326	303	305
Other operating revenues	204	175	180
Total operating revenues	1,742	1,620	1,578
Operating expenses:			
Instruction and departmental research	669	632	589
Research	328	312	329
Public service	227	222	233
Academic support	105	95	82
Student services	52	49	46
Scholarships and fellowships	63	60	56
Institutional support	128	115	113
Operation and maintenance of plant	129	139	144
Auxiliary enterprises	307	289	289
Depreciation	155	150	139
Other operating expenses, net	4	6	4
Total operating expenses	2,167	2,069	2,024
Operating loss	(425)	(449)	(446)
Nonoperating revenues (expenses):			
State operating appropriation	264	250	245
State AgBioResearch appropriation	32	30	29
State cooperative extension service appropriation	28	26	25
Federal Pell grant revenue	38	37	38
Gifts	73	55	46
Net investment income	93	324	187
Interest expense on capital asset related debt	(37)	(41)	(36)
Other nonoperating revenues, net	1	6	6
Net nonoperating revenues	492	687	540
Income before other	67	238	94
State capital appropriations	48	30	2
Capital grants and gifts	54	36	15
Additions to permanent endowments	37	44	38
Increase in net position	206	348	149
Net position, beginning of year	3,173	2,825	2,676
Net position, end of year	$ 3,379	$ 3,173	$ 2,825

Total net revenue by source for the year ended June 30, 2015 is presented in millions of dollars:



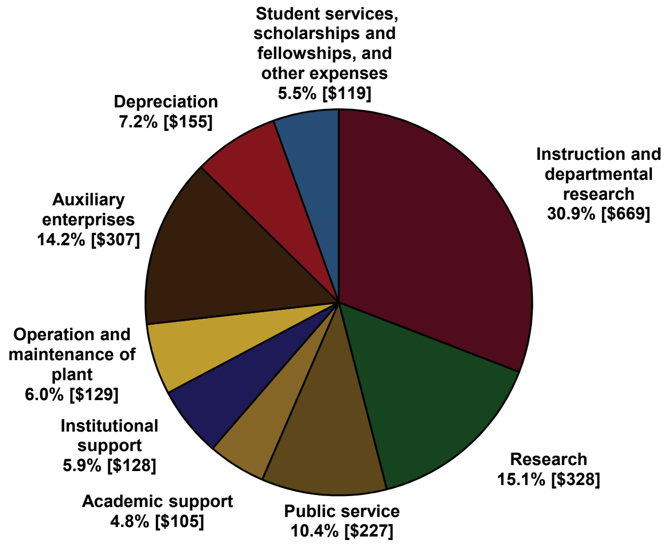
TOTAL REVENUE $2.4 BILLION

The University is supported by a diverse stream of revenue which supplements its student tuition and fees, including state appropriations, federal and state sponsored programs, private gifts and grants, and investment income. The University continues to seek revenue from all possible sources consistent with its mission and to manage the financial resources realized from these efforts to fund its operations.

Operating revenues: The most significant source of operating revenue for the University is student tuition and fees (net of scholarship allowances), totaling $797 million and $753 million in 2015 and 2014, respectively. Gross tuition and fees revenue increased 5.5% and 7.8% in 2015 and 2014, respectively, due in part to increases in student credit hours and rates, and changes in the student blend. Other major revenue sources in 2015 include auxiliary activities (activities which provide services to students, faculty, staff, and the public) totaled $326 million (an increase of $23 million), and federal grants and contracts totaled $323 million, which includes federal sponsored programs of $299 million (an increase of $16 million), and federal grants and contracts for MSU AgBioResearch and Extension of $24 million (a decrease of $2 million). The increase in federal sponsored programs revenue is due primarily to an $8 million increase through various awards from the Agency for International Development (AID) and an $8 million increase from the Department of Energy related to the Facility for Rare Isotope Beams. In 2014, net tuition and fees increased $56 million due in part to increases in student credit hours and rates, and changes in student blend.

Net nonoperating and other revenues: A primary source of this net revenue is state appropriations, which totaled $372 million in 2015, an increase of $36 million (10.7%). In 2015, the University received $264 million in funding for general operations, compared to $250 million in 2014. Michigan State University Extension and MSU AgBioResearch appropriations totaled $60 million, compared to $56 million in 2014. In addition, the University received $48 million in state capital appropriations in 2015 ($30 million in 2014), as funding toward eligible construction projects, including the Facility for Rare Isotope Beams ($36 million) and the MSU Bio Engineering Facility ($12 million). Other significant components of net nonoperating revenues in 2015 include gift revenue, which increased $18 million, capital grants and gifts, which increased $18 million, and net investment income, which decreased $231 million due to market conditions. In 2014, net investment income increased $137 million and state capital appropriations increased $28 million.

Operating expenses by source for the year ended June 30, 2015 are presented in millions of dollars:



TOTAL OPERATING EXPENSES $2.2 BILLION

During 2015, $1,224 million was expended for the core missions of the University - instruction and departmental research, research, and public service, an increase of $58 million (5.0%) over 2014. Instruction and departmental research expenses increased $37 million (5.8%), consistent with the 5.0% general fund budget increase from 2014 to 2015. Research and public service expenses increased $21 million (3.9%) due primarily to growth in sponsored programs ($11 million) and certain Medicaid Enhanced Reimbursement program costs within the College of Human Medicine and College of Osteopathic Medicine ($10 million). Auxiliary enterprises totaled $307 million, an increase of $18 million which is in line with revenue increases during 2015. In 2014, expenses for the core mission of the University increased $15 million and depreciation expense increased $11 million.

The University's Economic Outlook

As a vital engine for Michigan's prosperity, Michigan State University is committed to creating value for its students and partners. Through diversifying revenue streams and focusing its resources on key mission-specific initiatives, MSU is providing access and opportunity to both undergraduate and graduate students, for residents of Michigan and students from around the world.

Michigan State University's ongoing operations satisfy current operating and capital requirements and have sustained MSU as a top-100 global university. Over the last decade, state disinvestment in higher education challenged existing operational practices, requiring MSU to prioritize academic programs and support services to adjust to the new reality of appropriations funding.

Through its dedication to high-performing organizational processes, MSU has navigated the most challenging financial decade in higher education history and emerged with expanding global prominence and a growing research portfolio.

Moving forward, MSU anticipates inflation-adjusted (at best) appropriations support; increased competition for federal research resources; and increasing pressure on enrollment demographics at the state and national level. To address this new paradigm in higher education, MSU has proactively increased the number of undergraduate and graduate students over the last five years, diversified its revenue streams, effected curricular change, and realized operational efficiencies. For fiscal year 2015-16, the University approved a 2.7% increase in resident undergraduate tuition, while the state approved a 1.5% increase in appropriations.

The major strength of the University is its people – its increasingly talented students from diverse geographic and socioeconomic backgrounds; an acclaimed teaching and research faculty with winning competitive research resources; and a dedicated staff that, in many areas, leads the Big Ten indicators for efficiency. Longer term, MSU seeks to increase the number of endowed chairs and professorships available to MSU faculty, a necessity for faculty distinction and institutional recognition.

Michigan State University is poised for continuing and increasing prominence across numerous areas of emphasis, with themes that include food systems, water quality, computational science, sustainability, renewable resources, and health. To leverage excellence across these themes, both in research and instruction, MSU directs its resources towards recruiting and retaining acclaimed faculty through augmentation of competitive compensation positions within the Big Ten and against other peer groups, and development of the twenty-first century facilities necessary to provide the cutting edge environment necessary for the creation and transfer of knowledge.

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Independent Auditor's Report

To the Board of Trustees
Michigan State University

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan State University (the "University") and its discretely presented component unit as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Michigan State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Michigan Sate University Foundation (the "Foundation") which is the sole discretely presented component unit. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees
Michigan State University

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State University and its discretely presented component unit as of June 30, 2015 and 2014, and the changes in its financial position and, where applicable, cash flows, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of Michigan State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 29, 2015

	June 30, 2015	June 30, 2014
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,768	$ -
Investments	311,636	326,510
Accounts and interest receivable, net	168,380	141,572
Student loans and pledges receivable, net	25,468	21,579
Inventories and other assets	19,575	16,867
Total current assets	533,827	506,528
Noncurrent assets:		
Restricted cash and cash equivalents	207,269	10,016
Restricted investments	-	5,552
Endowment investments	2,241,694	2,082,333
Other investments	241,226	234,777
Student loans and pledges receivable, net	73,678	63,842
Investments in joint ventures and other	7,177	6,705
Derivative instruments - swap asset	676	286
Capital assets, net	2,106,711	1,995,436
Total noncurrent assets	4,878,431	4,398,947
Total assets	**5,412,258**	**4,905,475**
DEFERRED OUTFLOWS OF RESOURCES	**61,424**	**60,296**
LIABILITIES		
Current liabilities:		
Accounts and interest payable	79,570	75,643
Accrued personnel costs	51,812	55,677
Accrued self-insurance liabilities	14,096	14,949
Payroll taxes and other payroll deductions	27,675	25,096
Deposits held for others	33,958	25,616
Unearned revenues	137,016	125,254
Current portion of long term debt and other obligations	214,530	168,952
Total current liabilities	558,657	491,187
Noncurrent liabilities:		
Accrued personnel costs	32,951	33,592
Accrued self-insurance liabilities	7,628	6,163
Derivative instruments - swap liability	54,788	50,069
Net other postemployment benefit obligation	349,711	306,503
Long term debt and other obligations	1,090,971	905,346
Total noncurrent liabilities	1,536,049	1,301,673
Total liabilities	**2,094,706**	**1,792,860**
NET POSITION		
Net investment in capital assets	1,055,114	982,617
Restricted:		
Nonexpendable	529,578	486,621
Expendable	690,754	674,486
Unrestricted	1,103,530	1,029,187
TOTAL NET POSITION	**$ 3,378,976**	**$ 3,172,911**

See accompanying notes

STATEMENTS OF FINANCIAL POSITION

	June 30, 2015	June 30, 2014
	(in thousands)	
ASSETS		
Cash equivalents	$ 2,647	$ 4,153
Interest and dividends receivable	112	72
Grants and contracts receivable, net	484	627
Other receivables, net	91	7
Investments:		
Marketable securities	200,197	220,495
Investments in limited partnerships	141,639	133,233
Venture capital	54,067	45,996
Cash value of life insurance	3,408	3,173
Land held for investment, net	983	3,420
Other investments, net	1,831	1,694
Investment in Research Park	5,889	5,883
Notes receivable/equity in start-up organizations	524	318
Prepaid expenses	3	29
Prepaid rent	2,567	3,267
Property and equipment, net	5,551	6,080
Intangible assets, net	1,073	1,360
Other assets	10	3
TOTAL ASSETS	**$ 421,076**	**$ 429,810**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses and other payables	$ 2,972	$ 4,389
Deferred compensation	64	63
Notes payable	3,770	3,895
Trusts and annuities payable	9,357	9,713
Deposit held for Michigan State University	19,716	20,296
Deferred gain on building sale	1,115	1,420
Obligations under life estate agreements	153	123
Total liabilities	**37,147**	**39,899**
Net assets:		
Unrestricted	334,404	337,764
Temporarily restricted	33,938	36,517
Permanently restricted	15,587	15,630
Total net assets	**383,929**	**389,911**
TOTAL LIABILITIES AND NET ASSETS	**$ 421,076**	**$ 429,810**

See accompanying notes

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30, 2015	2014
	(in thousands)	
OPERATING REVENUES		
Student tuition and fees	$ 908,774	$ 861,351
Less: scholarship allowances	111,820	107,938
Net student tuition and fees	796,954	753,413
State of Michigan grants and contracts	10,477	8,805
Federal grants and contracts	323,509	308,865
Local and private sponsored programs	80,977	71,435
Interest and fees on student loans	981	823
Departmental activities (net of scholarship allowances of $5,637 in 2015 and $4,856 in 2014)	203,439	173,767
Auxiliary activities (net of room and board allowances of $23,065 in 2015 and $20,324 in 2014)	326,097	303,010
TOTAL OPERATING REVENUES	**1,742,434**	**1,620,118**
OPERATING EXPENSES		
Instruction and departmental research	668,570	631,778
Research	328,397	311,961
Public service	227,098	222,107
Academic support	104,886	94,674
Student services	51,830	48,937
Scholarships and fellowships	62,904	60,388
Institutional support	127,927	114,665
Operation and maintenance of plant	128,892	138,912
Auxiliary enterprises	306,949	289,455
Depreciation	155,358	149,771
Other operating expenses, net	4,290	5,881
TOTAL OPERATING EXPENSES	**2,167,101**	**2,068,529**
Operating loss	(424,667)	(448,411)
NONOPERATING REVENUES (EXPENSES)		
State operating appropriation	264,429	249,598
State AgBioResearch appropriation	32,028	30,244
State cooperative extension service appropriation	27,581	26,045
Federal Pell grant revenue	37,776	37,262
Gifts	72,509	55,177
Net investment income	93,076	323,519
Interest expense on capital asset related debt	(36,514)	(41,409)
Other nonoperating revenues, net	1,130	5,926
Net nonoperating revenues	492,015	686,362
INCOME BEFORE OTHER	**67,348**	**237,951**
State capital appropriations	47,302	29,569
Capital grants and gifts	54,197	35,598
Additions to permanent endowments	37,218	44,434
Increase in net position	206,065	347,552
Net position, beginning of year	3,172,911	2,825,359
NET POSITION, END OF YEAR	**$ 3,378,976**	**$ 3,172,911**

See accompanying notes

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year ended June 30, 2015			
	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
	(in thousands)			
REVENUE, GAINS AND OTHER SUPPORT:				
Contributions	$ 159	$ 3,245	$ 279	$ 3,683
Income from investments	15,728	352	219	16,299
Royalty income	1,664			1,664
Rental income	933			933
Rental expenses	(961)			(961)
Grants and contracts	2,654			2,654
Other income	318			318
Equity earnings from subsidiaries	115			115
Net assets released from restrictions:				
Satisfaction of program restrictions	7	8	(15)	-
Current year transfers	6,710	(6,184)	(526)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	27,327	(2,579)	(43)	24,705
EXPENSES:				
Contributions to Michigan State University	16,100			16,100
Expenses related to land held for investment, net	(92)			(92)
Investment management fees	2,544			2,544
Investment consulting fees	619			619
Adjustments to value of annuities payable	83			83
Management and general	1,419			1,419
Unrelated business income tax	376			376
Postretirement benefits:				
Net periodic benefit cost	267			267
Changes other than net periodic benefit costs	709			709
Provision for uncollectible receivables, net	(147)			(147)
MBI program expenses	7,074			7,074
Spartan Innovations expenses, net	1,735			1,735
TOTAL EXPENSES	30,687	-	-	30,687
Change in net assets	(3,360)	(2,579)	(43)	(5,982)
Net assets, beginning of year	337,764	36,517	15,630	389,911
NET ASSETS, END OF YEAR	$ 334,404	$ 33,938	$ 15,587	$ 383,929

	Year ended June 30, 2014			
	Unrestricted Funds	Temporarily Restricted	Permanently Restricted	Total
	(in thousands)			
REVENUE, GAINS AND OTHER SUPPORT:				
Contributions	$ 173	$ 3,394	$ 20	$ 3,587
Income from investments	45,808	4,068	2,011	51,887
Royalty income	1,693			1,693
Rental income	1,293			1,293
Rental expenses	(2,290)			(2,290)
Grants and contracts	4,205			4,205
Other income	569			569
Equity earnings from subsidiaries	115			115
Net assets released from restrictions:				
Satisfaction of program restrictions	180	(157)	(23)	-
Current year transfers	5,281	(4,710)	(571)	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	57,027	2,595	1,437	61,059
EXPENSES:				
Contributions to Michigan State University	14,396			14,396
Expenses related to land held for investment, net	32			32
Investment management fees	2,485			2,485
Investment consulting fees	597			597
Adjustments to value of annuities payable	119			119
Management and general	2,285			2,285
Unrelated business income tax	10			10
Postretirement benefits:				
Net periodic benefit cost	86			86
Provision for uncollectible receivables, net	64			64
MBI program expenses	6,462			6,462
Spartan Innovations expenses, net	1,609			1,609
TOTAL EXPENSES	28,145	-	-	28,145
Change in net assets	28,882	2,595	1,437	32,914
Net assets, beginning of year	308,882	33,922	14,193	356,997
NET ASSETS, END OF YEAR	$ 337,764	$ 36,517	$ 15,630	$ 389,911

See accompanying notes

	Year ended June 30, 2015	2014
	(in thousands)	
Cash flows from operating activities		
Tuition and fees	$ 797,076	$ 750,516
Research grants and contracts	431,695	395,489
Auxiliary activities	317,165	317,194
Departmental activities	193,292	169,305
Interest and fees on student loans	982	823
Loans issued to students	(9,038)	(8,979)
Collection of loans from students	10,011	8,596
Scholarships and fellowships	(97,565)	(95,763)
Payments to suppliers	(480,927)	(437,692)
Payments to employees	(1,380,005)	(1,331,481)
Other payments	(670)	(6,630)
Net cash used by operating activities	(217,984)	(238,622)
Cash flows from noncapital financing activities		
State appropriations	320,738	304,678
Federal Pell grant revenue	37,776	37,262
Gifts	57,901	55,311
Endowment gifts	37,412	44,258
William D. Ford Direct Lending receipts	363,577	362,111
William D. Ford Direct Lending disbursements	(363,434)	(362,068)
Net cash provided by noncapital financing activities	453,970	441,552
Cash flows from capital and related financing activities		
Capital appropriations	34,751	29,569
Capital gifts and grants	53,913	34,423
Proceeds from issuance of debt and other long term obligations	318,188	4,000
Purchase of capital assets	(264,407)	(239,626)
Proceeds from sale of capital assets	1,228	1,356
Principal paid on capital debt	(85,375)	(40,954)
Interest paid	(43,222)	(42,468)
Other receipts	3,534	2,971
Net cash provided (used) by capital and related financing activities	18,610	(250,729)
Cash flows from investing activities		
Investment income, net	172,318	171,381
Proceeds from sales and maturities of investments	3,908,529	3,661,436
Purchase of investments	(4,129,422)	(3,821,257)
Net cash provided (used) by investing activities	(48,575)	11,560
Net increase (decrease) in cash	206,021	(36,239)
Cash and cash equivalents, beginning of year	10,016	46,255
Cash and cash equivalents, end of year	**$ 216,037**	**$ 10,016**

See accompanying notes

	Year ended June 30,	
Reconciliation of net operating loss to cash flows from operating activities:	**2015**	**2014**
	(in thousands)	
Operating loss	$ (424,667)	$ (448,411)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	155,358	149,771
Change in assets and liabilities:		
Accounts receivable	(10,961)	6,371
Student loans receivable	973	(383)
Inventories and other assets	(2,708)	(2,648)
Investments in joint ventures and other	(472)	(41)
Accounts payable	2,496	6,485
Accrued personnel costs	(4,506)	2,612
Payroll taxes and other payroll deductions	2,579	(1,609)
Deposits held for others	8,342	1,351
Unearned revenues	11,762	5,704
Accrued self-insurance liabilities	612	(1,249)
Net other postemployment benefit obligation	43,208	43,425
Net cash used by operating activities	**$ (217,984)**	**$ (238,622)**

See accompanying notes

1. Organization, basis of presentation, reporting entity, and summary of significant accounting policies

Organization:

Michigan State University (the "University") was founded in 1855 as the Agricultural College of the State of Michigan. It was the first institution of higher learning in the nation to teach scientific agriculture and in 1863 became a pioneer land grant college under the Morrill Act. The University has grown into a comprehensive research university providing undergraduate, graduate, and professional degree programs. The University is not a component unit of the State of Michigan as defined by the Governmental Accounting Standards Board (GASB).

Basis of presentation:

The University follows all applicable GASB pronouncements. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities and are presented in accordance with the reporting model prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities, as amended by GASB Statements No. 37, No. 38, and No. 63. The University follows the "business-type" activities requirements of GASB Statement No. 34. This approach requires the following components of the University's financial statements:

- Management's Discussion and Analysis.

- Basic Financial Statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

GASB Statement No. 34, as amended by No. 63, establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following four net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- Restricted:

  Nonexpendable – Net position subject to externally imposed constraints that they be maintained permanently by the University. Nonexpendable net position includes the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net position whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time. Expendable net position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

- Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic, research, and outreach programs and initiatives, postemployment benefits, and capital asset renewals and replacements.

Reporting entity:

The Michigan State University Foundation (the "Foundation") is a legally separate, tax-exempt entity which meets the criteria set forth for component units under GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, as amended by GASB No. 61. The Foundation provides financial support for the objectives, purposes, and programs of the University. Although the University does not control the timing, purpose, or amount of its receipts from the Foundation, the resources (and income thereon) which the Foundation holds and invests are dedicated to benefit the University. Because the resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and its Statements of Financial Position and Statements of Activities and Changes in Net Assets are discretely presented in the University's financial statements. In addition, the Foundation's significant notes are summarized in Footnote 4.

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

Complete financial statements for the Foundation can be obtained by a written request to:

Michigan State University Foundation, 2727 Alliance Drive, Suite C, Lansing, Michigan 48910-3338

Summary of significant accounting policies:

Cash and cash equivalents – For purposes of the Statement of Cash Flows, the University defines cash and cash equivalents as highly liquid, short-term (90 days or less) investments that bear little or no market risk. Cash equivalents held in the Liquidity Reserve Pool (LRP), Common Investment Fund (CIF), and other investment funds are included in investments because the intent of these funds is long-term appreciation. Any cash balances held in these funds at the date of the financial statements are due to timing of reinvesting the proceeds within the fund.

Restricted cash and cash equivalents and restricted investments – Restricted cash and cash equivalents and restricted investments represent unspent bond proceeds that are externally restricted for the construction or purchase of capital assets.

Pledges – Financial support in the form of pledges is received from business enterprises, foundations and individuals. Revenue from gift pledges is recorded only when there is an unconditional promise to pay and all eligibility requirements, including time requirements, have been met. Contributions to permanent and term endowments are not recognized as assets until actually received.

Inventories – Inventories are recorded using various methods, including last in first out (LIFO) and first in first out (FIFO).

Investments – All investments are stated at fair value. Investments in publicly traded securities are stated at fair value as established by major securities markets. Non-publicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments.

Capital assets – Capital assets are stated at cost or, when donated, at fair value at the date of the gift. Depreciation is computed using the straight-line method, with a full-year expense in the year of acquisition and none in the year of disposal. Assets are depreciated over the estimated useful lives ranging from four to forty years for the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The University does not capitalize certain works of art or historical treasures (except for certain museum collections) that are held for exhibition, education, research, or public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred outflows of resources – Deferred outflows of resources consist of accumulated changes in the fair value of hedging derivative instruments and deferred losses on refunding of debt.

Compensated absences – University employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at death, retirement, or termination. Unused hours exceeding these limitations are forfeited.

Unearned revenue – Unearned revenue consists primarily of advance ticket sales for athletic events, summer school tuition not earned during the current year, and contract and sponsored program advances.

Derivative instruments – Derivative instruments consist of interest rate swap agreements and are stated at fair value based on the zero coupon valuation method.

Operating and Nonoperating Revenues – Operating activities as reported in the Statements of Revenues, Expenses, and Changes in Net Position are those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 34, including state appropriations, federal Pell grant revenue, gifts, and investment income. Restricted and unrestricted resources are spent and tracked at the discretion of the recipient University department within the guidelines of donor restrictions, if any.

Student tuition and fees – Student tuition and fee revenues are reported net of scholarship allowances in the Statements of Revenues, Expenses, and Changes in Net Position. Scholarship allowances represent the difference between the stated charge for goods and services provided by the University and the amount that is paid by the students or third parties on behalf of the students, where the University has discretion over such expenses.

Auxiliary activities – Auxiliary activities primarily represent revenues generated from University Residential and Hospitality Services, Intercollegiate Athletics, and various other departmental activities that provide services to the student body, faculty, staff, and general public.

Donor restricted endowments – Under Michigan law set forth in the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan in 2009 ("UPMIFA"), the Board acts in a fiduciary capacity as trustee of its endowment funds. UPMIFA requires that the Board exercise its fiduciary duties prudently and consider both the charitable purposes and needs of the University and the purposes of the specific endowment regarding current expenditures and preservation of the purchasing power of the funds. Under the programmatic spending policy established by the Board, 5% of the average market value of endowment investments for the twenty quarters of the five calendar years prior to the beginning of the fiscal year has been authorized for expenditure.

Eliminations – In preparing the financial statements, the University eliminates inter-fund assets and liabilities that would otherwise be reflected twice in the Statements of Net Position. Similarly, revenues and expenses related to internal service activities are also eliminated from the Statement of Revenues, Expenses, and Changes in Net Position. Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts where the University has discretion over such expenses, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Income taxes – The University is a part of the State of Michigan for purposes of Internal Revenue Code Section 115, and is an organization as described in Internal Revenue Code Section 501(c)(3). The University's income generally is exempt from federal income taxes, although income from certain activities may be subject to taxation as unrelated business income.

2. Cash and cash equivalents

The University's cash and cash equivalents as of June 30, 2015 and 2014 were as follows:

	2015	2014
Cash and cash equivalents, current	$ 8,768	$ -
Restricted cash and cash equivalents, noncurrent	207,269	10,016
Total cash and cash equivalents	$ 216,037	$ 10,016

Of the bank balances for cash, $573 of the total $233,829 in 2015 and $500 of the total $8,015 in 2014 were covered by federal depository insurance. Any remaining amounts were uninsured and uncollateralized, as banks holding deposits of the University are legally prohibited from collateralizing these deposits.

3. Investments

The University manages investments in accordance with the policy approved by the Board. The investment policy distinguishes guidelines for the Liquidity Pool (LP), Liquidity Reserve Pool (LRP), and Common Investment Fund (CIF). In addition, the University has other investments that are restricted by external agreements or by special donor limitations (Other).

As of June 30, 2015 and 2014, the University had the following investments:

	June 30, 2015				
Investment type	LP	LRP	CIF	Other	Total
Investment pools	$ 11,212	$ 32,375	$ 1,992,480	$ 49,884	$ 2,085,951
U.S. Treasury bonds	136,960	15,715	23,880	55	176,610
U.S. Government agencies	20,156	9,337	14,187	-	43,680
Municipal bonds	743	487	740	-	1,970
Corporate bonds	65,710	9,393	14,274	1,063	90,440
Asset-backed securities	51,853	9,207	13,990	2,342	77,392
U.S. equities	-	-	232,911	-	232,911
International equities	-	-	52,178	-	52,178
International bonds	25,002	3,343	5,079	-	33,424
Total	$ 311,636	$ 79,857	$ 2,349,719	$ 53,344	$ 2,794,556

	June 30, 2014				
Investment type	LP	LRP	CIF	Other	Total
Investment pools	$ 11,122	$ 79,158	$ 1,856,458	$ 48,694	$ 1,995,432
U.S. Treasury bonds	124,981	-	22,436	59	147,476
U.S. Government agencies	8,822	-	17,338	-	26,160
Municipal bonds	745	-	778	-	1,523
Corporate bonds	93,251	-	14,736	1,962	109,949
Asset-backed securities	54,101	-	14,144	2,405	70,650
U.S. equities	-	-	214,955	-	214,955
International equities	-	-	39,811	-	39,811
International bonds	39,040	-	4,176	-	43,216
Total	$ 332,062	$ 79,158	$ 2,184,832	$ 53,120	$ 2,649,172

Interest Rate Risk: As a means of managing its exposure to fair value losses arising from increasing interest rates, University investment policy limits the average duration of the LP portfolio to three years and the LRP and CIF portfolios to six years. At June 30, 2015 and 2014, the University was in compliance with its investment policy with regard to average duration. University policy does not address average duration of investments by investment type.

The maturities of fixed income investments as of June 30, 2015 and 2014 are as follows:

June 30, 2015
Fixed Income Investment Maturities

Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Investment pools	$ -	$ -	$ 66,054	$ 2,063	$ 68,117
U.S. Treasury bonds	55	169,722	2,727	4,106	176,610
U.S. Government agencies	-	17,430	1,759	24,491	43,680
Municipal bonds	-	743	-	1,227	1,970
Corporate bonds	23,518	49,847	9,079	7,996	90,440
International bonds	5,710	21,955	4,507	1,252	33,424
Asset-backed securities	96	26,016	20,547	30,733	77,392
Total	$ 29,379	$ 285,713	$ 104,673	$ 71,868	$ 491,633

June 30, 2014
Fixed Income Investment Maturities

Investment type	Less than 1 year	1-5 years	6-10 years	More than 10 years	Total
Investment pools	$ -	$ -	$ 82,015	$ 57,127	$ 139,142
U.S. Treasury bonds	-	143,000	2,524	1,952	147,476
U.S. Government agencies	-	5,025	1,019	20,116	26,160
Municipal bonds	-	834	-	689	1,523
Corporate bonds	16,042	83,704	6,380	3,823	109,949
International bonds	2,976	37,714	1,722	804	43,216
Asset-backed securities	1,061	27,462	18,279	23,848	70,650
Total	$ 20,079	$ 297,739	$ 111,939	$ 108,359	$ 538,116

The University invests in asset-backed securities such as mortgage pass-through securities issued by U.S. Government agencies. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Credit Risk: As a means of managing credit risk on its fixed income investments, University investment policy limits investments at time of purchase to the following ratings issued by nationally recognized statistical rating organizations: LP portfolio – short-term A1/P1, long-term BBB; LRP portfolio – short-term A2/P2, long-term B; CIF portfolio – short-term A2/P2, long-term BB. Thereafter, the minimum quality for separately managed funds in all three portfolios is limited to AA. University policy does not address credit risk by investment type.

The Standard & Poor's credit ratings for fixed income investments at June 30, 2015 and 2014 are as follows:

June 30, 2015								
Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International bonds	Asset-backed securities	Total
AAA	$ -	$ -	$ -	$ -	$ 510	$ 524	$ 33,134	$ 34,168
AA	-	-	-	1,378	8,276	1,501	5,769	16,924
A	-	-	-	592	40,692	20,161	-	61,445
BBB	-	-	-	-	38,805	10,159	1,038	50,002
BB	-	-	-	-	-	181	-	181
Below BB	-	-	-	-	-	-	-	-
Not rated	68,117	176,610	43,680	-	2,157	898	37,451	328,913
Total	$ 68,117	$ 176,610	$ 43,680	$ 1,970	$ 90,440	$ 33,424	$ 77,392	$ 491,633

June 30, 2014								
Rating	Investment pools	U.S. Treasury bonds	U.S. Government agencies	Municipal bonds	Corporate bonds	International bonds	Asset-backed securities	Total
AAA	$ -	$ -	$ -	$ -	$ 61	$ 2,664	$ 28,490	$ 31,215
AA	-	-	-	1,087	11,037	8,437	5,003	25,564
A	-	-	-	436	53,258	20,791	200	74,685
BBB	-	-	-	-	42,719	7,026	1,647	51,392
BB	-	-	-	-	452	127	-	579
Below BB	-	-	-	-	-	-	1,295	1,295
Not rated	139,142	147,476	26,160	-	2,422	4,171	34,015	353,386
Total	$ 139,142	$ 147,476	$ 26,160	$ 1,523	$ 109,949	$ 43,216	$ 70,650	$ 538,116

Concentration of Credit Risk: As a means of managing the concentration of credit risk, University investment policy limits the concentration of investments as follows: LP portfolio – No more than 15% of the portfolio's market value may be invested in dollar denominated foreign securities of developed countries (i.e., no emerging markets). No more than 10% of the portfolio's market value will be invested in securities of any single issuer, except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies. LRP portfolio – No more than 10% of the portfolio's market value may be invested in securities below BBB. No more than 10% of the portfolio's market value may be invested in securities of any single issuer, except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies. CIF portfolio – Investments are managed in accordance with asset allocation guidelines and manager guidelines established at the time of manager appointment and consist of equities, inflation hedge funds, limited partnerships, absolute return funds, and fixed income assets.

As of June 30, 2015 and 2014, not more than 5% of the University's total investments were invested in any one issuer except those which are obligations of, or fully guaranteed as to both principal and interest by, the U.S. Government or its agencies.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. University investment policy does not limit the value of investments that may be held by an outside party. Of the University's investments at June 30, 2015, $176,555 of the U.S. Treasury bonds, $43,680 of the U.S. Government agencies, $1,970 of the municipal bonds, $90,440 of the corporate bonds, $33,424 of the international bonds, $77,392 of the asset-backed securities, $232,911 of the U.S. equities, $52,178 of the international equities, and $27,364 of the external investment pools are held by the University's counterparty, not in the name of the University. Of the University's investments at June 30, 2014, $147,417 of the U.S. Treasury bonds, $26,160 of the U.S. Government agencies, $1,523 of the municipal bonds, $109,949 of the corporate bonds, $43,216 of the international bonds, $70,650 of the asset-backed securities, $214,955 of the U.S. equities, $39,811 of the international equities, and $21,552 of the external investment pools are held by the University's counterparty, not in the name of the University.

Foreign Currency Risk: University investment policy limits foreign currency risk on its LRP portfolio to 30% of the portfolio's market value.

4. Foundation Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statements of Financial Position.

The Foundation has entered into various limited partnerships and managed accounts with investment managers. These investments are secured by the underlying value of the securities composing the portfolios.

Foundation investments at June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Short-term investments	$ 1,334	$ 4,192
Domestic equities	66,331	73,767
Foreign equities	84,817	84,302
Fixed income	8,073	17,012
Mutual funds - Equities	26,815	27,421
Mutual funds - Fixed	12,827	13,801
Limited partnerships	141,639	133,233
Venture capital	54,067	45,996
Total	$ 395,903	$ 399,724

Certain 2014 amounts have been reclassified to conform to 2015 presentations.

Marketable securities: The fair values for marketable debt and equity securities are based on quoted market prices. Securities traded on national securities exchanges are valued at the reported sales price on the last business day of the year. Investments traded over the counter on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices.

Limited partnership investments: The carrying amount reported in the Statements of Financial Position is stated at market value or estimated market value.

Venture capital investments: The carrying amount reported in the Statement of Financial Position is stated at market value or estimated market value. Management, external consultants, and the Board of Directors evaluate these investments for impairments on a quarterly basis. As of June 30, 2015, the Foundation has an outstanding commitment to fund limited partnership and venture capital investments in the amount of $50,458.

In determining the fair value of investments, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset, including assumptions about risk and/or the risks inherent in the inputs to the valuation techniques. The Foundation's total investment fair value measurement is categorized according to a fair value hierarchy that ranks the quality and reliability of the information used to determine the fair value. The three valuation categories include: (1) Valuations from quoted prices in active markets that the entity has the ability to access as of the measurement date ($154,113 and $171,365 in 2015 and 2014, respectively); (2) Valuations obtained from other observable inputs such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observing market data ($46,084 and $49,130 in 2015 and 2014, respectively); (3) Valuations from unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in pricing as asset ($195,706 and $179,229 in 2015 and 2014, respectively).

Research park investment (not included in the above summary): The Foundation is also invested in a research park development, which consists of land transferred at historical cost from the University plus costs incurred to develop the infrastructure of the research park.

5. Accounts and interest receivable

The composition of accounts and interest receivable at June 30, 2015 and 2014 is summarized as follows:

	2015	2014
State appropriations	$ 58,916	$ 55,616
Research and sponsored programs	52,898	58,690
Departmental activities	33,325	18,627
Capital appropriations	14,564	2,019
Interest receivable	1,280	1,284
Other	22,001	19,632
	182,984	155,868
Less: allowance for doubtful accounts	14,604	14,296
Total accounts and interest receivable, net	$ 168,380	$ 141,572

6. Student loans and pledges receivable

The composition of student loans and pledges receivable at June 30, 2015 and 2014 is summarized as follows:

	2015	2014
Student loans receivable:		
Perkins Federal Loan Program	$ 38,141	$ 38,447
Health Professions Student Loan Programs	8,742	8,756
Other	3,619	3,977
	50,502	51,180
Less: allowance for doubtful accounts	5,810	5,515
Total student loans receivable, net	44,692	45,665
Pledges receivable:		
Capital	28,720	28,392
Operations	32,752	16,778
	61,472	45,170
Less: allowance for doubtful accounts	7,018	5,414
Total pledges receivable, net	54,454	39,756
Total student loans and pledges receivable, net	99,146	85,421
Less current portion - student loans	8,984	8,794
Less current portion - pledges	16,484	12,785
Noncurrent portion	$ 73,678	$ 63,842

Principal repayment and interest rate terms of federal and University student loans vary considerably. Campus-based federal loan programs are funded principally with federal and institutional contributions to the University under the Perkins and various health professions loan programs.

The University holds and services student loans related to the discontinued U.S. Department of Education Federal Family Education Loan Program. As of June 30, 2015, the University held a non-revolving line of credit, used to facilitate the servicing of the loans (see Footnote 13).

For the year ended June 30, 2015 and 2014, the University distributed $363,059 and $361,671, respectively, for student loans through the U.S. Department of Education William D. Ford Direct Loan Program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

Payments on pledges receivable at June 30, 2015, expected to be received in the following fiscal years ended June 30, are summarized below. The allowance for uncollectible pledges receivable is made based on prior collection experience and management judgment. Gift pledges expected to be collected in the future years are reported at the net present value of the related cash flows discounted at 4%.

2016	$	18,636
2017		14,639
2018		12,747
2019		9,135
2020		4,091
2021 and beyond		2,224
Total discounted pledges receivable		61,472
Less: allowance for uncollectible pledges		7,018
Total pledges receivable, net	$	54,454

7. Investments in joint ventures and other

The composition of investment in joint ventures and other at June 30, 2015 and 2014 is summarized as follows:

		2015		2014
Investment in joint ventures	$	6,027	$	6,705
Other		1,150		-
Total investment in joint ventures and other	$	7,177	$	6,705

The University is a member of four separate incorporated nonprofit joint ventures, most of which are accounted for under the equity method. The University and Sparrow Health System are members of Mid-Michigan MRI, Inc., which provides high technology cross-sectional diagnostic imaging services. University Rehabilitation Alliance, Inc. has the University and Peckham Vocational Industries of Lansing as members and is an enterprise for the treatment of persons with brain injury. Alliance Corporation is an enterprise formed with Spectrum Health System to support and direct the collaboration of physicians and researchers to enhance patient treatments and increase the investigation of leading-edge medical research. The University is a 50% member in each of the foregoing nonprofit corporations. Additionally, the University is a one-third member in Radiation Oncology Alliance, a nonprofit corporation formed with McLaren Greater Lansing and the University of Michigan to provide radiation oncology services. Copies of financial statements for these entities can be obtained by a written request to: Office of the Controller, Michigan State University, 426 Auditorium Rd., John A. Hannah Administration Building Room 305, East Lansing, Michigan 48824-1046.

During the year ended June 30, 2015, the University entered into a facilities agreement with Consumers Energy. The agreement calls for the University to fund an initial deposit of $23,000 to Consumers Energy that will be used for the construction of a 138kV electrical substation to provide energy to the University. The facility will be owned and operated by Consumers Energy. Once placed in service, the University will be entitled to an annual utility expense rebate from Consumers Energy, based in part on annual energy consumption, for a period of up to 25 years or up to an accumulated rebate total of $23,000. Any portion of the initial deposit not applied to future energy expenses through the annual rebate amount within the 25 year period will be forfeited. At June 30, 2015, the University had made deposits totaling $1,150.

8. Capital assets and collections

Capital asset and collection activity for the years ended June 30, 2015 and 2014 follows:

	2014	Additions	Disposals	Transfers	2015
Non-depreciated capital assets:					
Land	$ 38,935	$ 2,544	$ -	$ -	$ 41,479
Construction in progress	213,639	212,188	(99)	(109,502)	316,226
Museum collections	12,589	730	-	10	13,329
Total non-depreciated capital assets	265,163	215,462	(99)	(109,492)	371,034
Depreciated capital assets:					
Buildings and site improvements	2,680,703	-	(6,573)	101,551	2,775,681
Software and other intangibles	95,611	-	-	-	95,611
Equipment and other	734,879	56,555	(22,336)	7,941	777,039
Less: accumulated depreciation					
Buildings and site improvements	(1,133,851)	(88,440)	2,504	-	(1,219,787)
Software and other intangibles	(73,442)	(19,122)	-	-	(92,564)
Equipment and other	(573,627)	(47,796)	21,120	-	(600,303)
Total depreciated capital assets	1,730,273	(98,803)	(5,285)	109,492	1,735,677
Total capital assets	$ 1,995,436	$ 116,659	$ (5,384)	$ -	$ 2,106,711

	2013	Additions	Disposals	Transfers	2014
Non-depreciated capital assets:					
Land	$ 38,282	$ 653	$ -	$ -	$ 38,935
Construction in progress	184,254	187,917	(57)	(158,475)	213,639
Museum collections	11,247	1,342	-	-	12,589
Total non-depreciated capital assets	233,783	189,912	(57)	(158,475)	265,163
Depreciated capital assets:					
Buildings and site improvements	2,517,980	7,853	(485)	155,355	2,680,703
Software and other intangibles	93,151	1,825	-	635	95,611
Equipment and other	706,048	46,511	(20,165)	2,485	734,879
Less: accumulated depreciation					
Buildings and site improvements	(1,047,471)	(86,567)	187	-	(1,133,851)
Software and other intangibles	(54,320)	(19,122)	-	-	(73,442)
Equipment and other	(548,193)	(44,082)	18,648	-	(573,627)
Total depreciated capital assets	1,667,195	(93,582)	(1,815)	158,475	1,730,273
Total capital assets	$ 1,900,978	$ 96,330	$ (1,872)	$ -	$ 1,995,436

9. Deferred outflows of resources

The composition of deferred outflows of resources at June 30, 2015 and 2014 is summarized as follows:

	2015	2014
Accumulated changes in fair value of hedging derivative instruments	$ 48,064	$ 45,803
Loss on refunding of debt at June 30, 2010	13,360	14,493
Total deferred outflows of resources	$ 61,424	$ 60,296

10. Contingencies and risk management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. To manage these risks, the University uses commercial insurance with various self-insured retentions. Self-insured amounts are calculated based on current and historical claims experience.

The University's liability for various medical professional liability claims is funded based on actuarial valuations. The University carries excess commercial medical professional liability insurance to manage the liability. The liability is reported at its present value of $5,763 and $5,164 as of June 30, 2015 and 2014, respectively. The discount rate used was 2%, which is based on industry standards.

The University is also self-insured for various employee benefits which include health care and dental insurance, workers compensation, and unemployment compensation. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported. The workers compensation liability, which will be settled by fixed payments over an extended period of time, is reported at its present value of $3,240 and $3,660 as of June 30, 2015 and 2014, respectively. The discount rate used was 4% in 2015 and 6% in 2014.

Changes in the total reported general, professional, and self-insured employee benefit liabilities during 2015, 2014, and 2013 were as follows:

	2015	2014	2013
Balance, beginning of year	$ 21,112	$ 22,361	$ 20,868
Claims incurred and changes in estimates	158,630	141,840	146,156
Claim payments	(158,018)	(143,089)	(144,663)
Balance, end of year	21,724	21,112	22,361
Less: current portion	14,096	14,949	14,109
Noncurrent portion	$ 7,628	$ 6,163	$ 8,252

For those risks that the University has purchased commercial insurance, settled claims have not exceeded the commercial coverage in any of the past three years.

In the normal course of its activities, the University has been a party in various legal actions. Historically, the University has not experienced material losses from such actions. After taking into consideration legal counsel's evaluation of pending actions, the University is of the opinion that the outcome thereof will not have a material effect on the financial statements.

11. Retirement benefits

The University has a defined contribution base retirement program administered through TIAA-CREF and Fidelity Investments for all qualified employees. All regular employees are eligible to participate based on the service requirements specific to their employee group. Participants maintain individual accounts with the base retirement vendors and are fully vested.

Participating employees contribute 5% of their base salary or wages and the University contributes 10% of the employee's base salary or wages, subject to applicable Internal Revenue Service limits. Participants may elect to contribute additional amounts to a supplemental program and/or a deferred compensation plan, within specified limits, which are not matched by University contributions. Plan provisions and contribution requirements of plan members and the University are established and may be amended in accordance with University policies, union contracts, or plan provisions. Contributions under the base program, excluding the participants' supplemental contributions, for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
University contributions	$ 76,543	$ 72,870
Employee contributions	38,271	36,435

In addition, the University has a single-employer, defined benefit plan covering 430 employees hired prior to January 1, 1973. The plan is closed to new entrants and monies have been internally reserved by the University to fully fund program costs, which are estimated to be $5,033 based on an actuarial valuation as of January 1, 2015. The plan is not funded through a pension trust. The benefits are based on the employee's compensation during the last three years of employment and/or years of service. There were no required annual contributions and no pension costs for each of the three preceding years ended June 30, 2015.

12. Other postemployment benefits (OPEB)

Plan Description: The University provides retiree health and dental care benefits, including prescription drug coverage, to eligible retired employees and qualified spouses/beneficiaries. This is a closed single employer defined benefit plan administered by the University. Benefits are provided to eligible faculty, academic staff and support staff who meet normal retirement requirements while still working for the University. Currently, the plan has approximately 15,100 members. The plan does not issue a separate stand-alone financial statement. Effective for new employees hired on or after July 1, 2010, the University discontinued providing retiree health and dental care benefits.

Funding Policy: The University's medical plans are self-funded and each plan's premiums are updated annually based on actual claims. The University contributes to the lowest cost health plan's single rate cost for which retirees are eligible. No payment is required by retirees who select the lowest cost health plan for coverage. In the event a retiree selects an alternative health plan, the retiree is responsible for payment of the difference in premium costs. Retirees are responsible for various co-payments. The University funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Funding Progress: For the year ended June 30, 2015, the University has estimated the cost (annual expense) of providing retiree health and dental care benefits through an actuarial valuation as of January 1, 2014. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. This valuation's computed contribution and actual funding are summarized as follows:

	2015	2014	2013
Annual required contribution	$ 74,039	$ 70,095	$ 74,423
Interest on the prior year's net OPEB obligation	20,975	18,415	15,189
Less: adjustment to the annual required contribution	(18,102)	(15,425)	(12,368)
Annual OPEB cost	76,912	73,085	77,244
Amounts contributed:			
Payments of current premiums and claims	(33,704)	(29,660)	(31,147)
Advance funding	-	-	-
Increase in net OPEB obligation	43,208	43,425	46,097
OPEB obligation - beginning of year	306,503	263,078	216,981
OPEB obligation - end of year	$ 349,711	$ 306,503	$ 263,078

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years are as follows:

	Fiscal year ended June 30,		
	2015	2014	2013
Annual OPEB cost	$ 76,912	$ 73,085	$ 77,244
Percentage contributed	43.8%	40.6%	40.3%
Net OPEB obligation	$ 349,711	$ 306,503	$ 263,078

The funding progress of the plan as of the most recent and two preceding valuation dates are as follows:

	Valuation as of January 1,		
	2015	2014	2013
Actuarial value of assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)	865,747	823,312	901,127
Unfunded AAL (UAAL)	$ 865,747	$ 823,312	$ 901,127
Funded ratio	0.0%	0.0%	0.0%
Annual covered payroll (annual payroll of active employees covered by the plan)	$ 693,596	$ 710,116	$ 797,207
UAAL as a percentage of covered payroll	124.8%	115.9%	113.0%

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts are determined regarding the funded status of the plan, and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 7% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term and short-term investment returns on the University's own assets to be used for funding the current liability, and an annual health care cost trend rate of 5%, which includes a 4% inflation assumption. The UAAL is being amortized over 30 years as a level percentage of projected payroll on a closed basis, with 22 years remaining as of June 30, 2015.

13. Long term debt and other obligations

Long term debt and other obligations for the years ended June 30, 2015 and 2014 are summarized as follows:

	2014	Borrowed	Retired	2015	Current Portion
General Revenue Bonds:					
Series 2015A	$ -	$ 192,890	$ -	192,890	$ -
Series 2013A	170,950	-	3,150	167,800	3,255
Series 2010A	205,000	-	-	205,000	-
Series 2010C	248,615	-	12,685	235,930	13,190
Series 2007A	15,280	-	3,550	11,730	3,725
Series 2007B	25,000	-	-	25,000	-
Series 2005	54,140	-	-	54,140	-
Series 2003A	48,205	-	-	48,205	-
Series 2000A	77,135	-	-	77,135	-
	844,325	192,890	19,385	1,017,830	20,170
General Revenue Commercial Paper:					
Series B taxable	90,855	-	7,855	83,000	83,000
Series D tax-exempt	55,820	-	55,820	-	-
Series E tax-exempt	1,000	110,280	2,175	109,105	109,105
	147,675	110,280	65,850	192,105	192,105
Federal student loan deposits	38,624	518	-	39,142	-
Line of credit	911	-	375	536	-
Lease obligations and other	42,763	15,017	1,892	55,888	2,255
	$ 1,074,298	$ 318,705	$ 87,502	$ 1,305,501	$ 214,530

	2013	Borrowed	Retired	2014	Current Portion
General Revenue Bonds:					
Series 2013A	$ 170,950	$ -	$ -	$ 170,950	$ 3,150
Series 2010A	205,000	-	-	205,000	-
Series 2010C	260,830	-	12,215	248,615	12,685
Series 2007A	18,660	-	3,380	15,280	3,550
Series 2007B	25,000	-	-	25,000	-
Series 2005	54,140	-	-	54,140	-
Series 2003A	48,205	-	-	48,205	-
Series 2000A	77,135	-	-	77,135	-
	859,920	-	15,595	844,325	19,385
General Revenue Commercial Paper:					
Series B taxable	87,855	3,000	-	90,855	90,855
Series D tax-exempt	81,045	-	25,225	55,820	55,820
Series E tax-exempt	-	1,000	-	1,000	1,000
	168,900	4,000	25,225	147,675	147,675
Federal student loan deposits	38,181	443	-	38,624	-
Line of credit	1,311	-	400	911	-
Lease obligations and other	44,313	-	1,550	42,763	1,892
	$ 1,112,625	$ 4,443	$ 42,770	$ 1,074,298	$ 168,952

All bonds are secured by General Revenues and certain variable rate issues bear interest based on weekly or quarterly rates determined by the indexing agent or remarketing agent and are amortized through mandatory redemptions as follows:

- Series 2007B: from fiscal 2020 through 2037
- Series 2005: from 2021 through 2034
- Series 2003A: from 2021 through 2033
- Series 2000A: from 2022 through 2031

With the exception of the Series 2007B bonds, the foregoing bonds may be converted to a permanent fixed rate provided certain conditions are met.

On June 30, 2015, the University issued fixed-rate General Revenue Bonds, Series 2015A for $192,890 with a net original issue premium of $15,017. Proceeds provided $157,131 for capital projects, $49,650 to convert commercial paper into long-term debt, and $1,126 for issuance costs. The Series 2015A bonds bear interest at fixed rates from 2% to 5% and mature either serially through fiscal 2036 or are subject to mandatory redemption from fiscal 2037 through 2046.

The Series 2013A bonds bear interest at fixed rates from 3% to 5% and mature either serially through fiscal 2034 or are subject to mandatory redemption from fiscal 2035 through 2042.

The Series 2010A bonds bear interest at 6.17% and are subject to mandatory redemption from fiscal 2044 through 2050. Prior to March 1, 2013, in accordance with the Build America Bonds program, the University received semi-annual federal credit payments equal to 35% of actual interest expense incurred on the outstanding principal balance of the bonds. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions took place on March 1, 2013. These required reductions included a reduction to refundable credits applicable to certain qualified bonds, including Series 2010A. The sequestration reduction rate is 7.3% for payments processed on or after October 1, 2014 and on or before September 30, 2015. The sequestration reduction rate was 7.2% from October 1, 2013 to September 30, 2014. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration rate is subject to change.

The Series 2010C bonds bear interest at fixed rates from 3% to 5.125% and mature either serially through fiscal 2029 or are subject to mandatory redemption from 2030 through 2044.

The Series 2007A bonds bear interest at 5% and mature serially through fiscal 2019.

The University utilizes variable-rate commercial paper to provide interim financing. The Board has authorized the issuance of up to $250,000 in commercial paper secured by General Revenues and allows for tax-exempt and taxable issuances. Outstanding commercial paper debt is converted to long-term financing, as appropriate, within the normal course of business. Outstanding tax-exempt balances bear interest at rates from 0.06% to 0.10% and taxable balances bear interest at rates from 0.10% to 0.13% , with principal and accrued interest payments due within a maximum of 270 days from the date of issuance.

Hedging derivative instrument payments and hedged debt: Using rates as of June 30, 2015, scheduled fiscal year maturities of bonds payable and related interest expense are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. See Footnote 14 for information on derivative instruments.

Fiscal Year	Fixed-Rate Bonds		Variable-Rate Bonds		Hedging	
Ending June 30,	Principal	Interest	Principal	Interest	Derivatives, Net	Total
2016	$ 20,170	$ 39,922	$ -	$ 321	$ 7,753	$ 68,166
2017	22,015	38,849	-	321	7,720	68,905
2018	23,455	37,707	-	321	7,685	69,168
2019	24,460	36,514	-	321	7,648	68,943
2020	23,290	35,385	1,990	315	7,579	68,559
2021-2025	76,175	165,657	63,715	1,253	31,952	338,752
2026-2030	63,395	151,146	91,850	585	15,429	322,405
2031-2035	85,055	136,711	44,965	198	2,605	269,534
2036-2040	126,235	113,149	1,960	18	-	241,362
2041-2045	173,055	77,398	-	-	-	250,453
2046-2050	176,045	27,618	-	-	-	203,663
Total	$ 813,350	$ 860,056	$ 204,480	$ 3,653	$ 88,371	$ 1,969,910

Interest expense was $36,514 (net of $6,313 capitalized interest) and $41,409 (net of $2,816 capitalized interest) for 2015 and 2014, respectively.

Federal student loan deposits represent funds from the federal government related to various federal student loan programs.

At June 30, 2015, the University owed $536 on a $4,100 non-revolving line of credit related to the University's servicing of unsold graduate and professional degree student loans under the Federal Family Education Loan Program (see Footnote 6). This line of credit bears interest equal to the British Bankers Association (BBA) London Interbank Offering Rate (LIBOR) Daily Floating Rate plus 1%. Payments of accrued interest are due monthly, with all unpaid accrued interest and principal due in October 2015.

The University holds $75,000 in revolving lines of credit that are available for maintaining the required operating cash reserves of the University and providing necessary funds to meet extraordinary cash flow needs, if necessary. For the year ended June 30, 2015 and 2014, no amounts had been drawn on these lines of credit.

Lease obligations and other is comprised of lease obligations of $1,339 ($145 current) and unamortized bond premium of $54,549 ($2,110 current) at June 30, 2015. Bond premium amounts are amortized over the applicable bond issue life.

Accrued personnel costs include vacation and sick leave days earned but unused, including the University's share of payroll taxes, valued at the current rate of pay. Changes in the balances of accrued personnel costs during 2015 and 2014 were as follows:

	2015	2014
Balance, beginning of year	$ 89,269	$ 86,657
Additions	4,154	5,751
Reductions	(8,660)	(3,139)
Balance, end of year	84,763	89,269
Less: current portion	51,812	55,677
Noncurrent portion	$ 32,951	$ 33,592

14. Derivative instruments

At June 30, 2015 and 2014, the University was party to eight separate pay-fixed, receive-variable interest rate swaps and five separate pay-variable, receive-variable interest rate swaps. After considering any netting arrangements or other rights of offsets that may exist with each counterparty, interest rate swaps are reported at the net fair value as of the balance sheet date as either a noncurrent asset or noncurrent liability in the Statement of Net Position.

The fair value and notional amounts of derivative instruments outstanding at June 30, 2015 and 2014 are as follows:

	June 30, 2015		June 30, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative instruments - swap asset:				
Investment derivatives:				
Pay variable interest rate swaps	$ 53,230	$ 676	$ 58,755	$ 286
Derivative instruments - swap liability:				
Cash flow hedging derivatives				
Pay-fixed interest rate swaps	$ 208,255	$ (48,064)	$ 208,945	$ (45,803)
Investment derivatives:				
Pay-variable interest rate swaps	400,050	13,229	416,070	13,175
Pay-fixed interest rate swaps	71,685	(19,953)	71,685	(17,441)
Total Derivative instruments - swap liability	$ 679,990	$ (54,788)	$ 696,700	$ (50,069)

In accordance with GASB Statement No. 53, an interest rate swap is considered an effective cash flow hedge if the swap payment received substantially offset the payment made on the associated debt and changes in fair value are deferred as either a deferred outflow or a deferred inflow of resources. An interest rate swap that is not considered an effective cash flow hedge, in accordance with the provisions of the Statement, is deemed to be an investment derivative instrument and changes in fair value are recorded as net investment income (loss). For the fiscal year ending June 30, 2015 and 2014, the fair value of hedging derivative instruments decreased $2,261 and $503, respectively, while the fair value of investment derivative instruments decreased $2,068 and $5,356, respectively.

Fair Value: The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the dates of each future net settlement on the swaps.

Objective: The University is party to eight separate derivative instruments which are pay-fixed, receive-variable interest rate swaps that hedge the changes in cash flows on various variable-rate debt series. In order to protect against the potential of rising interest rates, the University entered into these derivative instruments at a cost less than what the University would have paid to issue fixed-rate debt. In order to benefit from both expected changes in the relationship of short and long-term interest rates and the relationships between the SIFMA Municipal Swap Index and both the ten-year USD-ISDA Index and the one-month USD-LIBOR-BBA Index and the relationship between the one-month USD-LIBOR-BBA Index and the ten-year USD-ISDA Index, the University also entered into five separate investment derivative instruments which are pay-variable, receive-variable interest rate swaps which relate to various debt series.

Terms, Fair Values, and Credit Risk: The following table displays the terms and fair values of the University's hedging derivative instruments outstanding at June 30, 2015 and 2014, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2015.

Type	Cash Flow Hedge for Debt Series	2015 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2015 Fair Value	2014 Fair Value
Pay-fixed interest rate swap	2000A	$ 71,535	11/3/2008	8/15/2029	4.074%	67% USD-LIBOR-BBA one month	Deutsche Bank AG / A3/BBB+	$ (18,162)	$ (17,621)
Pay-fixed interest rate swap	CP Series B	1,770	10/17/2002	8/15/2018	4.330%	USD-LIBOR-BBA one month	Deutsche Bank AG / A3/BBB+	(128)	(194)
Pay-fixed interest rate swap	CP Series B	2,040	10/17/2002	8/15/2022	5.280%	USD-LIBOR-BBA one month	Deutsche Bank AG / A3/BBB+	(423)	(455)
Pay-fixed interest rate swap	2003A	48,205	11/3/2008	2/15/2033	3.618%	67% USD-LIBOR-BBA one month	Barclays Bank PLC / A2/A-	(10,766)	(9,946)
Pay-fixed interest rate swap	CP Series B	8,565	11/3/2008	2/15/2033	5.330%	USD-LIBOR-BBA one month	Barclays Bank PLC / A2/A-	(2,432)	(2,340)
Pay-fixed interest rate swap	2005	54,140	11/3/2008	2/15/2034	3.647%	67% USD-LIBOR-BBA one month	Barclays Bank PLC / A2/A-	(12,283)	(11,367)
Pay-fixed interest rate swap	2007B & CP Series E	22,000	5/17/2007	2/15/2028	4.139%	67% USD-LIBOR-BBA three month plus .58%	JP Morgan Chase Bank / Aa3/A+	(3,870)	(3,880)
		$ 208,255						$ (48,064)	$ (45,803)

The following table displays the terms and fair values of the University's investment derivative instruments outstanding at June 30, 2015 and 2014, along with the notional amounts and credit rating of the associated counterparty as of June 30, 2015:

Type	Associated Debt Series	2015 Notional Amount	Effective Date	Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating	2015 Fair Value	2014 Fair Value
Pay-variable interest rate swap	2000A, 2003A, 2005, 2010C	$ 246,775	8/15/2009	2/15/2034	67% USD-LIBOR-BBA one month	67% USD-ISDA Swap Rate ten year less 0.407%	Deutsche Bank AG / A3/BBB+	$ 8,901	$ 11,208
Pay-variable interest rate swap	CP Series B	12,375	5/26/2006	2/15/2033	USD-LIBOR-BBA one month	USD-LIBOR-BBA ten year less 0.575%	Deutsche Bank AG / A3/BBB+	680	873
Pay-variable interest rate swap	2010C	35,485	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Deutsche Bank AG / A3/BBB+	451	191
Pay-variable interest rate swap	2010C	53,230	5/17/2010	8/15/2032	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 0.44%	Bank of New York Mellon / Aa2/AA-	676	286
Pay-variable interest rate swap	2007A, 2007B, 2010C	105,415	5/17/2007	2/15/2037	SIFMA Municipal Swap Index	67% USD-ISDA Swap Rate ten year plus 0.0063%	JP Morgan Chase Bank / Aa3/A+	3,197	903
Pay-fixed interest rate swap	2007B, CP Series B & E	71,685	5/17/2010	2/15/2037	4.226%	67% USD-LIBOR-BBA three month plus 0.63%	JP Morgan Chase Bank / Aa3/A+	(19,953)	(17,441)
		$ 524,965						$ (6,048)	$ (3,980)

Subsequent to the original effective dates, the University amended three of its pay-variable, receive-variable interest rate swaps per the terms listed in the table below. After the amendment periods, these interest rate swaps revert back to the original terms as outlined in the table above.

2015 Notional Amount	Amendment Effective Date	Amendment Termination Date	Rate Paid	Rate Received	Counterparty/ Counterparty Credit Rating
$ 246,775	8/15/2011	8/14/2014	0%	1.407%	Deutsche Bank AG / A3/BBB+
	8/15/2014	8/14/2019	0%	0.857%	
$ 12,375	8/15/2011	8/14/2014	0%	2.1725%	Deutsche Bank AG / A3/BBB+
	8/15/2014	8/14/2019	0%	1.3530%	
$ 105,415	8/1/2011	7/31/2014	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.8653%	JP Morgan Chase Bank / Aa3/A+
	8/1/2014	2/14/2021	SIFMA Municipal Swap Index	67% USD-LIBOR-BBA one month plus 1.1245%	

Credit Risk: The University is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the University's policy to require counterparty collateral posting provisions. The University has never failed to access collateral when required. The aggregate fair value of derivative instruments in asset positions at June 30, 2015 and 2014 was $13,905 and $13,461, respectively. This represents the maximum loss that would be recognized at the reporting date if the counterparties to those derivatives failed to perform as contracted. This maximum exposure is offset by negative hedging and investment derivative fair values included in netting arrangements with the same counterparties as the derivative instruments in asset positions. The net exposure to credit risk with any individual counterparty is $676 and $286 at June 30, 2015 and 2014, respectively.

The following table demonstrates the thresholds and minimum transfers for collateralization:

Credit Rating	Deutsche Bank AG Threshold	Deutsche Bank AG Minimum Transfer	JP Morgan Chase Bank N.A. Threshold	JP Morgan Chase Bank N.A. Minimum Transfer	Bank of New York Mellon Threshold	Bank of New York Mellon Minimum Transfer	Barclays Bank PLC Threshold	Barclays Bank PLC Minimum Transfer
Aaa/AAA	$ 40,000	$ 1,000	$ 40,000	$ 1,000	$ 40,000	$ 1,000	$ 40,000	$ 1,000
Aa3/AA- to Aa1/AA+	6,000*	1,000	20,000	1,000	6,000*	1,000	6,000	1,000
A3/A- to A1/A+	1,500	500	5,000	500	1,500	500	1,500	500
Baa1/BBB+	500	250	500	250	500	250	500	250
Below Baa1/BBB+	-	250	-	250	-	250	-	-

* Threshold for the University is $20,000

Interest Rate Risk: The University is not exposed to interest rate risk on its derivative instruments.

Basis Risk: The University is exposed to basis risk on its pay-fixed, receive-variable interest rate swaps because the variable-rate payments received by the University on these hedging derivative instruments are based on a rate or index other than interest rates the University pays on its variable-rate debt, which bear interest based on periodic rates determined by the indexing agent or remarketing agent. These pay-fixed, receive-variable swaps expose the University to basis risk should the rates resulting from the 67% of USD-LIBOR-BBA swaps not equal the rate the University pays on the 2000A, 2003A, 2005, 2007B, and tax-exempt Commercial Paper Series debt, and should the rates resulting from the USD-LIBOR-BBA swaps not equal the rate the University pays on the taxable Commercial Paper Series debt.

Termination Risk: The University or any of the involved counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the University would be liable to the appropriate counterparty for a payment equal to the liability, subject to any netting arrangement.

Rollover Risk: The University is not exposed to rollover risk on its derivative instruments.

Contingencies: All of the University's derivative instruments include provisions that require the University to post collateral at certain thresholds depending on the University's credit rating. See the table under "Credit Risk" for thresholds and minimum transfers for collateralization. As of June 30, 2015, the University's credit ratings were Aa1 as assigned by Moody's and AA+ as assigned by Standard & Poor's. The aggregate fair value of all derivative instruments with these collateral posting provisions as of June 30, 2015 was ($54,112). The related collateral postings totaled $19,126 posted by the University to its counterparties and $0 held by the University posted by its counterparties.

15. Net position

Restricted and unrestricted net position for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Restricted - nonexpendable:		
Permanent endowments	$ 529,578	$ 486,621
Restricted - expendable:		
Gifts, endowment income and sponsored programs	$ 440,968	$ 423,151
Quasi and term endowments	190,897	191,241
Capital projects	50,281	51,600
Student loans	8,608	8,494
Total Restricted - expendable	$ 690,754	$ 674,486
Total Restricted Net Position	$ 1,220,332	$ 1,161,107
Unrestricted:		
Designated/Committed	$ 1,097,616	$ 1,024,692
Uncommitted	5,914	4,495
Total Unrestricted Net Position	$ 1,103,530	$ 1,029,187

Restricted – Net position is restricted when it is subject to externally imposed constraints.

Unrestricted – Unrestricted net position is not subject to externally imposed constraints. However, this net position is subject to internal designations. Unrestricted net position includes amounts designated for specific purposes by action of the Board or management or may otherwise be subject to pending contractual commitments with external parties. Substantially all unrestricted net position is internally designated for programmatic initiatives or capital asset renewals.

16. Grants and contracts

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. Revenues from grants and contracts are recognized when all eligibility requirements have been met. The University records indirect costs related to such grants and contracts at predetermined rates that are negotiated with the University's federal cognizant agency. Both direct and indirect costs charged to the grants or contracts are subject to audit and approval by the granting agencies. University management believes adjustments of costs, if any, resulting from such examination by the granting agency would not be material.

17. Commitments

At June 30, 2015, the University had initiated plans and incurred certain contractual commitments related to the construction or capital improvement of various facilities. The costs to complete the projects are estimated to be $751,962 and are to be funded from debt proceeds, capital grants, private gifts, and other University funds. Certain University facilities have been, or are scheduled to be, financed in whole or in part by SBA bond issues secured by a pledge of rentals to be received from the State of Michigan pursuant to lease agreements among the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to the respective buildings, the State of Michigan will make all lease payments to the SBA, and the University will pay certain operating and maintenance costs. The SBA will be obligated to sell each building to the University for one dollar, after full payment of all rentals due under the related lease.

At June 30, 2015, the University had entered into various limited partnerships with investment managers of oil and gas, real estate, venture capital, private equity, and restructuring funds. As of June 30, 2015, $580,648 of the initial $1,089,849 investment commitment remains outstanding.

18. New accounting pronouncements

The University will be required to implement the provisions of GASB Statement No. 72, *Fair Value Measurement and Application,* effective with the fiscal year ending June 30, 2016. This GASB Statement reviews and considers alternatives for the further development of the definition of fair value, the methods used to measure fair value, the applicability of fair value guidance to investments and other items currently reported at fair value, and potential disclosures about fair value measurements. The University is in the process of determining the full impact of this standard on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* effective with the fiscal year ending June 30, 2017. This GASB Statement aims to improve the usefulness of information about pensions included in the financial statements for plans that are not within the scope of GASB 67 and 68. The University is in the process of determining the full impact of this standard on its financial statements.

The University will be required to implement the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective with the fiscal year ending June 30, 2018. This GASB Statement aims to improve accounting and financial reporting of postemployment benefits other than pensions (other post employment benefits, or OPEB). The University is in the process of determining the full impact of this standard on its financial statements.

Financial report prepared under the direction of Mark P. Haas, Vice President for Finance and Treasurer;
Glen J. Klein, Director of Investments and Financial Management; Gregory J. Deppong, Controller; and
John L. Thelen, Manager of Financial Analysis and Reporting.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Trustees
Michigan State University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Michigan State University (the "University") and its discretely presented component unit as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 29, 2015. Our report includes a reference to other auditors who audited the financial statements of Michigan State University Foundation, as described in our report on Michigan State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Michigan State University Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To Management and the Board of Trustees
Michigan State University

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 29, 2015

MICHIGAN STATE UNIVERSITY

SPARTANS WILL.